

FCC'S LIFELINE PROGRAM: A CASE STUDY OF GOVERNMENT WASTE AND MANAGEMENT

HEARING

BEFORE THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
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FCC'S LIFELINE PROGRAM: A CASE STUDY OF GOVERNMENT WASTE AND MISMANAGEMENT

THURSDAY, SEPTEMBER 14, 2017

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:17 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Ron Johnson, Chairman of the Committee, presiding.

Present: Senators Johnson, Daines, McCaskill, Carper, Tester, Heitkamp, Peters, and Hassan.

OPENING STATEMENT OF CHAIRMAN JOHNSON

Chairman JOHNSON. Good morning. This hearing will come to order.

I want to welcome the witnesses, thank them for their time and their testimony. The hearing's title is "FCC's Lifeline Program: A Case Study of Government Waste and Mismanagement." I would ask consent that my written remarks be entered in the record.¹

I will not steal anybody's thunder. There are a lot of facts, there are a lot of figures, there are a lot of assumptions. I want to quote Ronald Reagan. He said this, I think, a number of times, but this is the quote that I have: "No Government ever voluntarily reduces itself in size. Government programs, once launched, never disappear. Actually, a government bureau is the nearest thing to eternal life we will ever see on this Earth."

The reason I quote Ronald Reagan is because the Lifeline program was actually started under Ronald Reagan. And, as I just go through the briefing materials, you take a look where we have spent close to \$20 billion on this. It is somewhere around \$1.5 to \$2 billion per year. Significant evidence of waste, of fraud, of abuse. The Government Accountability Office (GAO) reports that 96 percent of low-income Americans actually have a phone. I am just going to ask some questions. Maybe we should ask ourselves: Did we achieve the goal of this program? Should we declare success, should we declare victory? Should we maybe consider ending it? Or do we still need to try and get that final 4 percent? Is it even possible? Should we be looking at reforms and controls?

Now, if we decide to end it, I think the other question would be: Do we just bank the money? We are \$20 trillion in debt over the next 30 years. At least \$100 trillion additional deficit that spending

¹ The prepared statement of Senator Johnson appears in the Appendix on page 29.

is projected. Maybe we ought to start banking some of this money. Maybe we ought to consider ending a program that worked, that succeeded, and save the money. Or maybe we could repurpose it to advance into high-speed broadband in rural areas. The same type of program under the Universal Service Fund (USF).

So, again, I think those are the kind of questions I am going to be asking, the questions that were on my mind as I was reading all the briefing material. I am hoping those are the kinds of questions this Committee asks during this hearing.

With that, I will turn it over to Senator McCaskill.

OPENING STATEMENT OF SENATOR MCCASKILL¹

Senator MCCASKILL. First, I am really grateful, Mr. Chairman, that you agreed to hold this hearing. It is really important. I began working, as Chairman Pai will tell you, I have been working on this for years, and it all began when I got a solicitation for a free phone at the condominium I live in in Washington. And, I looked at it, and I thought, “What in the world?” and brought it to work and said, “What is this?” And then, I began to dive in and realized how poorly designed this program was from the get-go. And, you correctly pointed out that this program began under Reagan. The wireless part of this program began under President Bush. This program was actually set up in a way that was fatally flawed under President Bush, but then these phones became known as the “Obama phones.” So, I want to make sure everyone knows there are lots of parents of this particular program that has gone awry.

We are going to spend a lot of time today talking about what has gone wrong with the Lifeline program. I know there are lots of people who depend on the Lifeline program, and I know that we need to look at ways we can support them. But the idea that we can continue a program that is still structurally deficient, in the same way we have been doing it, is frankly, a non-starter with me.

The combination of ineffective oversight and the greed of private carriers has led to hundreds of millions of dollars in wasted public money. Since 2014, when the GAO began the most recent audit that I requested, the Federal Communications Commission (FCC) has identified and pursued several companies that have fraudulently profited from the Lifeline program. However, this investigation demonstrates this may only be the tip of the iceberg.

GAO’s multiyear audit found evidence suggesting that Lifeline may have paid more than \$138 million a year in subsidies for 1.2 million potentially fraudulent accounts. We are not talking about highly sophisticated fraud here. There were 1.2 million accounts that were either duplicates of existing subscribers, or there was no record that the listed subscriber was actually eligible, or where the subscriber is dead.

It should not have taken a 3-year GAO audit to spot these glaring red flags. I am so grateful for GAO’s hard work. I asked them to assess the effectiveness of the 2012 Lifeline reforms, which began after I received the solicitation in 2011, and I began hollering about this on the Commerce Committee.

¹ The prepared statement of Senator McCaskill appears in the Appendix on page 30.

I do not believe any of us could have anticipated the extent of the problems that GAO would uncover in spite of the 2012 reforms. I would like to personally thank GAO, who spent more than 3 years on this, and I want to thank the team, your team, Mr. Bagdoyan, that did this. I know as a former auditor that there is a tremendous amount of focus and dedication needed for an audit like this.

I also know the FCC and the Universal Service Administrative Company (USAC) have taken steps to improve the oversight. Today we will hear from the FCC Chairman and the Acting Executive Director of USAC about the efforts underway to combat the waste and fraud and abuse that have long plagued this program.

I do not doubt the sincerity of the FCC and USAC and their desire to address the shortcomings. The reality is these are not new problems—investigative journalists, the FCC Office of Inspector General (OIG) and many of my colleagues in Congress and I have pointed them out time and time again over the last decade.

Chairman Pai, you have been among those who have brought attention to Lifeline's serious weaknesses. During your time as an FCC Commissioner, you urged the FCC to implement much needed reforms and called for proactive measures to increase accountability and more aggressive enforcement. Now that you are leading the Commission, I am cautiously optimistic about the possibility of meaningful reform. I know that you are aware past attempts to increase accountability have fallen woefully short.

One of the reasons for these past failures is that many of the weaknesses are deeply entrenched in the basic structure of the program. You do not tell people that they get to verify whether or not somebody needs a phone when they are the ones that are going to make the money if they verify eligibility for the phone. It will never work because the incentives are in the wrong place. The incentives are to override the database. The incentives are to put more people on the program because every person you put on the program is \$9.25 a month to your company. And, it is just a moneymaker to push the envelope.

It does not take an auditor to tell you it might not be the best idea to blindly trust the companies that are going to make the money—who receive \$1.5 billion each year from this program—based on the number of accounts they service.

The FCC has taken the initial step to address this structural flaw by creating the National Eligibility Verifier to independently screen eligibility. However, last year's Lifeline reform order does not require that crucial reform to be complete until the end of 2019, and there are still mechanisms to override that the companies can do. So, if we know the companies are overriding the database now, I have no confidence they are not going to override and self-certify over the National Verifier.

We have made progress. I do want to acknowledge that. This program went from about \$800 million per year to \$2.2 billion in breakneck speed. Then we began the reforms and found massive duplications, and it fell down and it is about \$1.5 billion now. So, we just skimmed the surface and found \$600 million. And, by the way, that is real money. That is a lot of money that is desperately needed for rural broadband deployment.

I have a lot of questions particularly on the enforcement end. We have \$94 million that has been identified that should be paid back. The companies that should be paying this back get over \$1 billion a year from this program. And, guess what? They have not paid us a dime. Not one thin nickel. I do not understand why we keep paying these companies that owe us money. And so, be prepared for that question because I need an answer to that.

Thank you, Mr. Chairman, for the hearing.

Chairman JOHNSON. Listen, I appreciate your passion on this thing. I woke up this morning with a stiff neck, and I think it is because, as I was reading the briefing materials, I was just shaking my head. So, this will be an interesting hearing, maybe a frustrating hearing. But, listen, I do appreciate your dogged pursuit of this waste, fraud, and abuse, and hopefully we can come up with some solid recommendations about what we should do moving forward.

It is the tradition of this Committee to swear in witnesses, so if you will all stand up and raise your right hand. Do you swear that the testimony you will give before this Committee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. BAGDOYAN. I do.

Mr. PAI. I do.

Ms. ROBINSON. I do.

Chairman JOHNSON. Please be seated.

Our first witness is Seto Bagdoyan. Mr. Bagdoyan is the Director of Audit Services for the U.S. Government Accountability Office's Forensic Audits and Investigative Service mission team. In his role he supervises the team that reviews the internal controls of government programs and roots out waste, fraud, and abuse. Mr. Bagdoyan.

TESTIMONY OF SETO BAGDOYAN,¹ DIRECTOR, FORENSIC AUDITS AND INVESTIGATIVE SERVICE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. BAGDOYAN. Thank you. Chairman Johnson, Ranking Member McCaskill, and Members of the Committee, I am pleased to appear before you today to discuss GAO's May 2017 report on FCC's Lifeline program. The program's expenditures total about \$1.5 billion annually, covering over 12 million beneficiaries. Given its scope and scale, Lifeline is inherently vulnerable to fraud. In this regard, our findings highlight multiple significant risks involving, for example, the program's financial management and beneficiary enrollment controls. Accordingly, today I will highlight two of our report's principal takeaways regarding these particular risks.

First, FCC and USAC, the not-for-profit corporation which administers Lifeline, have taken some steps to enhance controls over program finances. For example, FCC and USAC established financial and management controls regarding billing, collection, and disbursement of funds for Lifeline and related USF programs. However, FCC maintains the USF with a cash balance of over \$7 billion and net assets of about \$8 billion as of June 2017 outside of Treasury in a private bank account. In 2005, we recommended that FCC

¹ The prepared statement of Mr. Bagdoyan appears in the Appendix on page 32.

reconsider this arrangement given that the USF consists of Federal funds. In addition to addressing any risks associated with having the funds outside of Treasury where they do not enjoy the same rigorous financial management practices and regulatory safeguards as other Federal programs, FCC identified potential benefits of moving the funds. For example, by having the funds in Treasury, USAC will have better tools for fiscal management of the funds. In March 2017, FCC developed a preliminary plan to move the USF to Treasury.

Second, to enhance Lifeline's ability to detect and prevent ineligible subscribers from enrolling, FCC in 2014 established a database with a real-time list of subscribers. In 2015, the agency adopted a rule requiring Lifeline providers to retain eligibility documentation used to qualify consumers for program support to improve the auditability and enforcement of FCC rules.

Nevertheless, we found weaknesses in several key control areas. For example, the program's structure relies on over 2,000 Lifeline service providers to implement important program functions such as verifying subscriber eligibility. This involved internal control environment could actually exacerbate fraud risk as companies may have financial incentives to enroll as many customers as possible without sufficient verification.

Accordingly, based on our data matching analyses, we were unable to confirm whether about 1.2 million individuals of about 3.5 million we reviewed, also 36 percent, participated in a qualifying program such as Medicaid as claimed on their Lifeline enrollment applications. Since we were able to review only about a third of total subscribers due to methodological limitations, we believe that this number is actually understated. In terms of cost, providers would have received about \$137 million in USAC disbursements annually for delivering Lifeline phone services to these individuals.

To address enrollment control weaknesses, FCC's 2016 order calls for the implementation of a third-party National Eligibility Verifier by 2019 to determine subscriber eligibility. In addition to data analyses, we covertly tested provider enrollment controls. Specifically, we made 21 attempts to enroll in Lifeline through 19 different providers using fictitious identities and documentation, and we were successful in 12 attempts. Five providers we enrolled through were among the top 30 recipients of Lifeline disbursements from USAC in 2014, totaling almost half a billion dollars. One of these providers who did not actually send us a Lifeline phone upon enrollment collected almost \$10 million in such disbursements.

In closing, I would underscore that it is essential for FCC to place a high policy priority on deploying effective preventative enrollment and other controls to help mitigate the risk for potential fraudulent activity in Lifeline, including the broadband expansion, and safeguard the government's substantial investment in this program. Fully and timely implementing our report's seven recommendations in addition to any other actions FCC is taking independently would be vital in this regard. To its credit, FCC has agreed to implement all of our recommendations.

Chairman Johnson, this concludes my remarks. I look forward to the Committee's questions. Thank you.

Chairman JOHNSON. Thank you.

Our next witness is the Honorable Ajit Pai. Mr. Pai is the Chairman of the Federal Communications Commission. He was originally appointed to the FCC by President Obama in 2012 and was designated Chairman by President Trump in January 2017. While serving at the FCC, he has championed numerous innovative reforms. Chairman Pai.

**TESTIMONY OF THE HONORABLE AJIT V. PAI,¹ CHAIRMAN,
FEDERAL COMMUNICATIONS COMMISSION**

Mr. PAI. Chairman Johnson, Ranking Member McCaskill, Members of the Committee, thank you for holding this hearing and for inviting me to testify today alongside my distinguished counterparts, Mr. Bagdoyan and Ms. Robinson.

I have often said that the FCC's highest priority is closing the digital divide—the gap between those who have access to next-generation technologies and those who do not. The Lifeline program can play a role in our efforts to bring digital opportunity to all Americans. But, unfortunately, it continues to be riddled by waste, fraud, and abuse. This is doubly destructive: every dollar wasted comes from ratepayers and does nothing to help low-income families actually in need of communications services. The FCC owes it to everyone who contributes to or properly receives benefits from the Universal Service Fund to make sure the Lifeline program is efficient, effective, and free of waste, fraud, and abuse.

Prior to becoming Chairman, as Senator McCaskill observed, I conducted my own investigation of the Lifeline program as a Commissioner in 2016. The Government Accountability Office report that we will discuss today confirms some of the issues I identified and more, and I will briefly highlight some of them.

First, because the Lifeline program lacks adequate safeguards, it has paid for subscribers who are not eligible to participate, potentially to the tune of hundreds of millions of dollars a year. In its investigation, as Mr. Bagdoyan pointed out, GAO was unable to confirm whether more than 1.2 million Lifeline subscribers of the 3.5 million sampled actually participated in Lifeline-qualifying programs that they or their provider claimed during the enrollment process.

Second, while Lifeline rules only allow one subsidy per household, loopholes in enforcing the program's one-per-household rule have allowed providers to enroll hundreds of subscribers at a single address, including one address that was associated with 10,000 separate subscribers.

Third, for years, a lack of robust verification procedures has allowed providers to claim support for “phantom” and deceased subscribers, as well as to unlawfully claim multiple benefits for other subscribers. Phantom subscribers—that is, subscribers who do not exist but who still collect a Lifeline benefit—have numbered in the thousands for multiple providers.

Finally, some Lifeline providers' sales agents' practices continue to be a key driver of inappropriate enrollments in the program. This is because agents are often paid based on the number of new

¹ The prepared statement of Mr. Pai appears in the Appendix on page 46.

subscribers that they sign up. Not surprisingly, many are less than scrupulous about who they enroll.

Now, in light of some of these problems, I have directed USAC to implement aggressive administrative changes to correct the problems that GAO, my office, and the FCC's Inspector General (IG) have identified.

Specifically, I have asked USAC to take immediate action to strengthen its administrative processes and the National Lifeline Accountability Database (NLAD). Among other measures, I have asked USAC to review addresses associated with large numbers of subscribers and to prevent providers from claiming subsidies for more than their total number of enrolled subscribers. USAC should also block benefits for dead subscribers and actively detect and remove duplicative benefits found for the same household. Moreover, to hold sales agents accountable, USAC should require them to register with USAC before using the Lifeline enrollment systems.

Any improper payments that USAC identifies in these processes will be reported to the FCC's Enforcement Bureau and the FCC's Office of the Inspector General for administrative, civil, or criminal action, as appropriate.

Furthermore, to combat eligibility-related waste, fraud, and abuse, the FCC will launch the Lifeline National Eligibility Verifier in at least six States this year. The National Verifier will determine subscriber eligibility, and this will make it harder for fraudsters to claim ineligible or duplicate subscribers. The National Verifier will also use Federal and State data sources to automate eligibility checks. This will improve accuracy and minimize administrative expense.

Finally, the FCC must consider whether further programmatic changes are necessary to ensure that Lifeline funds are efficiently directed to those families who need it most.

To be clear, the challenges in restoring the program's integrity are significant, but we have to learn from past mistakes and set the program on the right course.

One last point. The GAO report also raises concerns regarding universal service funds being held in a private bank outside of the United States Treasury. The FCC is actively working with the Treasury Department and with USAC on a plan to move those funds to the Treasury as soon as possible.

Chairman Johnson, Ranking Member McCaskill, thank you once again for holding this hearing. I look forward to answering your questions and to continuing to work with you and your staff on this important issue in the time to come.

Chairman JOHNSON. Thank you, Chairman Pai.

Our final witness is Vickie Robinson. Ms. Robinson is the acting chief executive officer (CEO) and general counsel of the Universal Service Administrative Company. She has spent nearly 20 years working for and with the FCC on universal service issues. Ms. Robinson.

TESTIMONY OF VICKIE S. ROBINSON,¹ ACTING CHIEF EXECUTIVE OFFICER AND GENERAL COUNSEL, UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Ms. ROBINSON. Thank you, Chairman Johnson. Good morning, Chairman Johnson, Ranking Member McCaskill, and Members of the Committee. I appreciate this opportunity to represent the Universal Service Administrative Company as part of the Committee's examination of the FCC's Lifeline program. I am honored to appear here alongside Chairman Pai, and it is my privilege to work together with him and our colleagues at the FCC to ensure the goals of universal service and the expectations of this Congress and the FCC with respect to our administration of the Lifeline program are not only met but exceeded.

I am also honored to be here today with Mr. Bagdoyan of the Government Accountability Office. My colleagues at USAC appreciate GAO's hard work in bringing to light those issues highlighted in its recent report and believe that the report's findings directly contribute to our efforts to improve program performance and root out waste, fraud, and abuse.

I joined USAC in February 2016 after serving in various positions at the FCC for over 14½ years. During my time there, I held leadership roles in the bureaus charged with universal service policy and enforcement matters. Armed with that knowledge, I brought to USAC an understanding and appreciation of the FCC's universal service goals and its programs, as well as the importance of a strong relationship between the FCC and USAC. I am committed to building upon that relationship.

USAC was designated as the permanent administrator of the Lifeline and other programs in 1998, and as part of this responsibility, we are charged with managing the day-to-day operations and overall management of the fund, including assessing contributions, disbursing funds, and executing related audit functions. USAC does not establish policy and may not advocate policy positions.

The GAO's report we will discuss today casts a critical spotlight on the administration of the Lifeline program. Among its many findings, GAO expressed concern about efficiencies in the Lifeline program, program oversight, and the risk of waste, fraud, and abuse. Today I would like to highlight for you some of the key efforts USAC is making to improve program integrity and performance, including actions initiated before and since the release of GAO's report.

In 2014, USAC executed the FCC's directive to establish a NLAD, to help eliminate fraud by detecting duplicate subscribers within the program. It is an essential tool in our effort to prevent waste, fraud, and abuse in the program, and it is used to perform name and address verification, duplicate checking, as well as management of enrollment, de-enrollment, and transfer of subscribers between Lifeline service providers.

As has been alluded to in previous testimony, NLAD has drastically reduced instances where subscribers had more than one connection and were, therefore, violating Lifeline program rules. Upon

¹ The prepared statement of Ms. Robinson appears in the Appendix on page 138.

initial launch of NLAD in 2014, NLAD detected 2.5 million duplicate subscribers that have since been eliminated. This in turn led to hundreds of millions of dollars in savings. Lifeline disbursements have dropped from \$2.2 billion in 2012 to \$1.5 billion in 2015 following implementation of NLAD.

In 2016, the FCC directed USAC to establish a National Verifier to authenticate program eligibility prior to enrollment. We are working closely with the FCC, State and Federal agencies, program participants, and other parties to develop a system that will ensure program integrity by placing under USAC's control responsibility for verification of subscriber eligibility. The National Verifier is on track to be completed on time and on budget.

Once complete, the National Verifier, working in tandem with the NLAD, will comprise a comprehensive system to verify eligibility and prevent waste, fraud, and abuse, greatly improving USAC's ability to safeguard Lifeline funds. However, duplicate detection and eligibility verification are not the only tools that USAC can use to prevent waste, fraud and abuse. Building on data analytics and program integrity projects already underway, as well as the findings in GAO's report and Chairman Pai's 12- or 18-month-long investigation in his most recent letter, we have developed the Lifeline Safeguard Implementation Plan, which aggressively focuses on key areas for action and increased collaboration with Chairman Pai. We are implementing this vigorously and developing new tools to take the NLAD and National Verifier where they cannot be leveraged. And, as Chairman Pai has alluded to, since the GAO report was issued, we have taken concrete steps to ensure accountability for universal funds, reaching agreement with our private bank to provide the FCC a more explicit role in the oversight of funds and working closely with the FCC and the Department of Treasury to transfer funds.

Thank you for the opportunity to testify. I look forward to your questions.

Chairman JOHNSON. Thank you, Ms. Robinson.

I am more than happy to hold off on my questioning if, Senator Peters, you want to go.

OPENING STATEMENT OF SENATOR PETERS

Senator PETERS. I appreciate that. Thank you, Mr. Chairman, Ranking Member McCaskill. First off, I want to thank both of you for bringing this hearing to us today. This is a very important topic, and reading the GAO report, I do not think anyone could read that report and not be very angry.

Senator McCaskill, you have been a real champion, thank you. Since that first day when you got the notice for the free telephone, you have really been a champion for this, and I applaud your efforts. So, it is great to be here with both of you, and I appreciate the testimony here today.

But, I want to start off, before I ask a few questions, and thank Chairman Pai for your comments about making sure that we have access in our society, the digital divide. You and I have spoken about that a great deal. I know you are sincere, I know you are passionate about making sure that folks in this country have access to communications service, which is absolutely essential in the

modern age. We have to have that. This country made a focus to make sure everybody had electricity in the last century. Communications is every bit as important as electricity. It is essential to life.

And so, the basic premise and the goals of this program remain the same, are very important, that folks who may not have those opportunities need to have it. But, as I mentioned, with the GAO report, none of us can stand here and accept the kind of fraud and abuse that we see going on in this program. And, it endangers a program that does bring a lot of significant benefits to people who need it, and that angers me that you have actors out there that are basically scamming this program, and we have to stop that and be very aggressive in doing that.

And, I could not agree with Senator McCaskill more—the scam really seems to be from the companies that are out there. It is not individuals that are bringing—at least that is not my understanding. Correct me if it is a wrong understanding, but it is not individuals bringing fraudulent documents. It is companies that have an incentive to just sign everybody up. I am very confident the thousands of phantom people who are dead are not scamming it themselves. There is not a dead person who is trying to scam this. These are companies that are taking this money away from taxpayers and endangering a program that provides vital services to people who need it.

On the other hand, there are folks who do not need it, but it is pretty hard for most folks, if you get a notice for a free telephone, you do not usually ask a lot of questions if you get a free telephone. So, we have to hold these folks accountable, and I know there are a number of steps that are being taken.

When I saw the GAO report, I wrote a letter to both Mr. Pai and Ms. Robinson, and I appreciate your very detailed responses to the questions that I asked. And, Mr. Chairman, I would like to enter all three letters into the record,¹ if I may.

Chairman JOHNSON. Without objection.

Senator PETERS. Thank you.

I want to focus on some of the potential fixes here, and so I want to talk a little bit about the National Verifier system that Ms. Robinson talked about quite a bit, which is to address many of the outstanding issues. And, I asked many of these questions in the letter that I have just entered into the record, so I do not need to repeat some of those. But, I just have some straightforward questions for you, Ms. Robinson.

In your August 18th response to my letter, you said that USAC will publish and distribute a comprehensive list of available State eligibility databases for service providers to use by the end of the month. Are you on track to do that?

Ms. ROBINSON. Absolutely. That has been done.

Senator PETERS. It has been done? So, we have completed that.

Ms. ROBINSON. Yes.

Senator PETERS. Good. Do you agree with those who think that the National Verifier will significantly reduce the risk of waste, fraud, and abuse by shifting the burden of eligibility determina-

¹ The letters submitted by Senator Peters appears in the Appendix on page 189.

tions away from sales agents and third-party contractors to a neutral administrator?

Ms. ROBINSON. Absolutely, I do.

Senator PETERS. Well, I just want to add a follow-up. We are shifting some of the burden of that to a third party, but we still have to have the burden on those folks who are signing these individuals up. They need to be held accountable, that they have to check the paperwork, they have to have it. They have to have records of it, and it has to be available for vigorous audits, just like any other private entity would be.

Chairman Pai, do you agree with the assessments?

Mr. PAI. Senator, I do, and I also want to commend Ms. Robinson for her able leadership of USAC during the past several months. She has been a terrific partner for the FCC in this effort, and I am grateful to all that she and her team have done. I would simply add two points, however.

First, that the National Verifier will only cover eligibility. There are a number of other vulnerabilities in the processes that GAO identified.

And, second, in the meantime I think we also need to make sure that we pursue as aggressively as we can some of those unscrupulous actors on the enforcement side to make sure that there are no cracks in the system as best we can fill them.

Senator PETERS. And, if you could tell me how you will personally ensure that the National Verifier system is implemented, are you actively involved as well? And, what do you plan to do personally?

Mr. PAI. Yes, sir, we are actively monitoring that. We are working with USAC to make sure that we can get that National Verifier stood up as quickly as possible. It involves coordination with a number of different jurisdictions, obviously, and so we and our team are very actively working on that to make sure that we can meet those timeframes, six States by the end of the year, a couple dozen States more by the end of 2018, and nationwide implementation by the end of 2019. That is our goal, and I am doing everything I can to make sure that we meet it.

Senator PETERS. As I mentioned in my earlier comments, the most important thing here is enforcement, and deterrence is the best way to prevent a lot of these problems when providers know that the consequences of their fraud will be detected, they will be punished, and they will have to pay back the taxpayers aggressively.

Chairman Pai, tell me a little more about what the FCC is doing to make this painfully clear to all of these probably thousands of service providers who have been scamming us for quite some time, that the Enforcement Bureau is going to take tough actions, and what you have seen in the past is nothing like what you are going to see in the future?

Mr. PAI. Thank you for the question, Senator. It is an unfortunate feature of human nature that if there is not a cop on the beat, people tend to play a little faster and looser with the rules. And, unfortunately, that has manifested itself here.

As Senator McCaskill observed, when I was a Commissioner, I aggressively urged the FCC to take action against some of those

unscrupulous providers that you mentioned who are scamming not just the ratepayers but, of course, the people who really need the help, the recipients.

Senator PETERS. And, what have we seen during that time? When you say additional action, what have we actually seen in that time period?

Mr. PAI. Unfortunately, to be candid, Senator, we did not see any action during the previous Administration, and I was disturbed when I became Chairman to find in my review of the Enforcement Bureau's policies and priorities that there was no plan for any enforcement action against some of these Lifeline providers. We have changed that. I have instructed our Enforcement Bureau to make this a top priority. And, while I cannot discuss the particulars of any given case, what I can tell you is that this will not be an afterthought. It is front and center in my mind in terms of our enforcement priorities.

Senator PETERS. And, you will be able to come to us at some future date and tell us how many cases have been pursued, how many have been successful? And, we would expect to see that fairly soon, I would expect?

Mr. PAI. I cannot give you a specific timeframe. What I can tell you is I urge you to hold us accountable, and we will give you all the information that we can as soon as we can to make sure that you are aware that enforcement is not just an aspiration but it is a reality at the FCC.

Senator PETERS. Well, I appreciate that. My time has expired, but I just want to say that, again, I think there is an important goal here to make sure that people have access to communications services, but it has to be done properly, it had to be done efficiently, it has to be done without fraud and abuse. And, if there are any tools that you need from us here in Congress, I will at least let you know in my case, and I am sure I speak for others, that we will be here to help you do that, because we have got to make sure this program is administered properly so the individuals who rely on this service continue to have it. It is absolutely essential in today's modern economy. Thank you.

Mr. PAI. Thank you, Senator.

Chairman JOHNSON. Thank you, Senator Peters.

Let me follow up on that same line of questioning. Chairman Pai, are you telling me there has never been a prosecution against these fraudulent actors?

Mr. PAI. Well, Chairman, the one notable exception would be the Total Call Mobile case. That was a glaring case in which one particular company had scammed the fund out of millions of dollars. We did take action in that case. But, there are a number of other cases that are pending, which Senator McCaskill adverted to in her opening statement. I urged the FCC at the time to take aggressive action in those cases, and nothing happened.

Chairman JOHNSON. So, describe what enforcement means.

Mr. PAI. Typically, what will happen is the FCC will issue what is called a "Notice of Apparent Liability (NAL)." We tell Party X, "We think you have violated the law, and based on our assessment, we believe that you are liable to the Federal Government for this amount of money." At that point the company has a chance to re-

spond, and based on that response or non-response, the FCC then proceeds to what is called a “forfeiture order,” in which we say we affirmatively determined that you are liable for this amount of money.

One of the unfortunate things that we found during the previous Administration is that there were a lot of words about enforcement. We might issue a Notice of Apparent Liability, but there was no actual follow up on the back end.

Chairman JOHNSON. So, the enforcement sounds to me like, “Oops, I got caught, I have to pay it back.” Is that really the only enforcement action possible? Is there a criminal prosecution? Can we hold people accountable? Can they go to jail?

Mr. PAI. Absolutely. There is one case, Icon Telecom in Oklahoma, in which we found that the proprietor of that company had been using some of the funds for personal benefit, and I believe in that case there was a prosecution.

Chairman JOHNSON. What is the maximum penalty?

Mr. PAI. It depends on the particular nature of the criminal offense that the Department of Justice (DOJ) chooses to prosecute. We obviously do not have direct criminal prosecutorial authority.

Chairman JOHNSON. Ms. Robinson, you are shaking your head. Would this just fall under normal criminal statutes in terms of theft and the extent of the theft in terms of penalties? Or, are there specific penalties called out in the statute?

Ms. ROBINSON. So, I am speaking from another role that I had. While at the FCC, I actually worked for some time in the Enforcement Bureau, so I happen to know, and this is one of my areas of expertise. The Communications Act actually sets forth statutory maximums that kind of confine and restrict what the FCC can do in terms of the structure of enforcement actions. But, yes, the FCC has many tools, as Chairman Pai alluded to, including the Notice of Apparent Liability, forfeiture actions, citations, admonishments, and the FCC aggressively uses those tools, especially under Chairman Pai, and we are working closely with him right now to continue in that effort.

Chairman JOHNSON. So, again, kind of the question I want, you literally have the possibility of—let us say a CEO of a company, running the company, has to be aware of this fraud, literally stealing millions of dollars. Now, if you go and rob a bank of millions of dollars, you would be put away for how many years? How many years can these people be put away for if we actually enforce and have the Justice Department follow up on it? What is the penalty?

Mr. PAI. I cannot give you the specific term of years that would be applicable to that criminal offense, but I can say from an FCC perspective, we are consistently looking at the full range, up to the maximum of the fines that we can impose, the other civil and criminal and administrative penalties that we can impose, to make sure that there is a deterrent effect, because, otherwise, as you pointed out, folks just think, OK, I will get a slap on the wrist, I can go back to the business model that we had before.

Chairman JOHNSON. So, I found it jaw-dropping, the instances where one address was getting hundreds and then thousands of phones. It kind of reminds me of the earned income tax credit with

some audits from the Inspector General of the Internal Revenue Service (IRS).

I want to go through the process of how this reimbursement works so we can understand how that kind of fraud can occur. Mr. Bagdoyan, Chairman Pai, or Ms. Robinson, tell me how the reimbursement works. How is the phone applied for or how is the fraud committed?

Ms. ROBINSON. Sure, and I can try to approach this a couple different ways. But, I think it is important, Chairman Johnson, to kind of clarify a few issues.

In the first instance, the Lifeline program rules as written today do not actually provide support for phones. It is actually to provide the subsidies designed to provide for the underlying service. But, of course, certain service providers do have the ability to, and often do actually provide free phones.

Chairman JOHNSON. So, a service provider basically sends an invoice to the FCC—

Ms. ROBINSON. Or to USAC.

Chairman JOHNSON [continuing]. To get \$9.25 reimbursement for a phone.

Ms. ROBINSON. That is correct.

Chairman JOHNSON. That is on a monthly basis?

Ms. ROBINSON. Sure, they can submit monthly. They can submit quarterly, etc, and that is through the Form 497. And, what we are doing now, actually through the great work that Chairman Pai pointed out, previously there were some disconnects that he was quick to note, between information that was included in that form, the Form 497, and in the National Lifeline Accountability Database. And, through Chairman Pai's observations, we actually rectified that process such that we no longer allow a delta between what was submitted on the Form 497, which could be a lot more than what was actually allowed in the NLAD.

Chairman JOHNSON. So, the companies themselves have sales agents that can go through different types of eligibility rolls, whether it is Medicare or Medicaid.

Ms. ROBINSON. Correct.

Chairman JOHNSON. And, start calling up people and say, "Hey, do you want a phone?" Is that kind of how it works or it could work?

Mr. PAI. It could work that way, yes.

Chairman JOHNSON. So, I understand the verification process in terms of whether one of these people who subscribe actually are part of that program, and there is an audit result, what was it, 3.5 million people contacted, 1.5 million they were not part of those programs. Do we also verify that they actually get a phone?

Mr. BAGDOYAN. That is a great question, Mr. Chairman. We really do not know whether they do get a phone.

Chairman JOHNSON. I am shaking my head again here.

Mr. BAGDOYAN. Yes, I know. I am not trying to compound your problem, but we really do not know, and we really do not know how many of these individuals have other phones, like the 12.3 million or so subscribers that I mentioned in my opening remarks, we have no idea how many other phones they have and from whom. So, that is also a problem.

Chairman JOHNSON. I will get to that in my next round, but it was also pretty stark that it was like one in eight or one in nine did not have another phone, or whatever. We will get into that in the next round. Senator McCaskill.

Senator MCCASKILL. I do not even know where to start. There is so much.

Chairman JOHNSON. That was one of the problems with this hearing.

Senator MCCASKILL. Let us go with enforcement first. I have a list of folks who received NALs, and NALs are basically for the folks you found that have done bad stuff. Right, Ms. Robinson? And on this list, Icon was referred for criminal prosecution, but that ended up as a money-laundering case.

Mr. PAI. Correct.

Senator MCCASKILL. And, the only person I know of that has ever been convicted of anything was this guy, and it was not for anything having to do with Lifeline. He was convicted of money laundering.

Mr. PAI. Right.

Senator MCCASKILL. So, let us take that case and put it aside. I have \$94 million—take his out, so that means I have \$90 million that has been identified from 10 carriers, \$90 million from 10 carriers. Now, keep in mind those same 10 carriers you wrote checks totaling \$2.4 billion to in the last three years.

Now, how in the world are we writing these people checks when they owe us \$90 million? How is that happening?

Mr. PAI. Senator, that is a great question, which I asked when I was a Commissioner, and we are committed to stopping that now that I have the privilege of serving as Chairman.

Senator MCCASKILL. Well, you are not. Nothing is happening here. There is no enforcement in this program. These guys know they can get away with it. I mean, you have done three. You have done three settlements with AT&T, Bluejay and Total Call. But nobody has gone to jail. And, let us look at what the GAO did. They did a secret shopper program, and they applied with fraudulent information, and 63 percent of the time they were deemed eligible. This is after 2012, Chairman Pai. This is after all these reforms. This is after the database. This is after all of that. Sixty-three percent of the time they were made eligible.

So, why you guys do not internally have a secret shopper program? And, the minute you catch somebody doing that, why you do not immediately slap a lawsuit on them and go after them? This is not hard. I am a prosecutor. I guarantee you a jury will convict these guys. It is outrageous to me that they have gotten away with this level of fraud for this long, \$90 million that you guys have identified and you keep writing them checks. I mean, I do not know what I have to do to stop this.

Mr. PAI. Senator, what I can tell you is that, again, this is a top enforcement priority for us. We are moving aggressively. And, again, I cannot give particular information in this setting, but what I can tell you is this is not falling through the cracks under my leadership.

Senator MCCASKILL. Is there a statute of limitations problem?

Mr. PAI. There are legal issues such as that that we have to take into account.

Senator MCCASKILL. OK. I need to know what you are going to do about all those things. I mean, this is like the third hearing I have had where I have said, "You have collected no money, much less sent anybody to jail." Of course, this is going to continue.

Let us talk about overrides. Basically, right now, the Lifeline providers are supposed to use the databases to confirm eligibility. When they cannot be confirmed, the Lifeline requires that the providers independently review income. Prior to February 2016, you guys had no way to confirm they were doing so other than literally taking their word for it.

So, we now know that 63 percent of the time that GAO applied with fake info, they were getting a phone. You indicated you found in June of last year that between October 2014 and April 2016, carriers were overriding the duplicate database 35 percent of the time.

So, we put this database in there for duplicates, and then they are just going in and overriding it. No harm, no foul. Is anybody calling them when they override it and saying, "What are you doing?" Thirty-five percent of the time, one of out three times, they are not paying any attention to the duplicate database.

Ms. ROBINSON. Ranking Member McCaskill, that is a very fair question, and under the existing rules, I think, and with all the universal service programs, as I understand the Commission's policy, there is always a balance between program integrity and trying to manage and balance program participation.

Senator MCCASKILL. Believe me, program integrity is lost on this one.

Ms. ROBINSON. Sure.

Senator MCCASKILL. In that battle they are not even close.

Ms. ROBINSON. Right.

Senator MCCASKILL. It is not even close. I mean, I think there are various ways you could confirm if it is a nursing home or a homeless shelter.

Ms. ROBINSON. Sure.

Senator MCCASKILL. The notion that you are letting one out of three override the duplicate verification process is outrageous on its face. Outrageous. So, what is going to keep them from overriding the National Verifier? Have you got any ideas on that?

Mr. PAI. Senator, that is one of the issues that I am concerned about, given the fact that, as you pointed out, in my own investigation in 2016 we found that overrides for some companies in particular was more the norm than the exception. And, that is one of the things that we have to make sure—

Senator MCCASKILL. Yes, those guys are cheating, the ones that are overriding the most. I will just tell you right now they are cheating. You want to go out and send an investigator and then bring whatever jurisdiction they are in to the local prosecutor, I will be glad to call the local prosecutor and walk them through putting them in jail. They are cheating. I mean, you guys just have to decide. Why can we not hand these phones out when someone signs up for unemployment insurance? Why can we not hand these phones out when someone signs up for Supplemental Nutrition Assistance Program (SNAP) benefits? Why can we not have these

phones handed out at the very setting where their eligibility verification has been done? Why are we providing these companies with this massive opportunity for fraud? Is there a reason why we cannot do that?

Ms. ROBINSON. Ranking Member McCaskill, I want to just kind of clarify a couple of things.

First, in the first instance, with respect to the overrides, literally through the ongoing investigation and things that have been pointed out, we have been getting more aggressive with—and the process for allowing overrides through the dispute process has been modified as a result of seeing that there was clearly a level of abuse that was occurring, and we have modified and significantly reduced the instances in which providers would be able to sort of override the system to sort of say, no, this actual subscriber is eligible. So, that is what I want to say in the first instance.

Second, with respect to the National Verifier, there is no override function being contemplated within there, so we have actually taken that lesson and learned from NLAD and have no intent in working with the Commission to sort of duplicate what some subscribers are using as a loophole to take——

Senator MCCASKILL. So, there will be no override?

Ms. ROBINSON. No.

Senator MCCASKILL. OK. So, if there is not a local database and the National Verifier cannot, then it will be upon the person who wants the phone to prove their verification to the National Verifier or to the local phone company?

Ms. ROBINSON. Right, and we also have a manual review process as well, so it is three components. There will be the Federal——

Senator MCCASKILL. Well, I will be interested to learn all about that. I would really love to see the proposal on that. I know, and why we do not stop the override on the duplicate database? Why do we not just say you cannot do it anymore? Why can we not do that? Do you not have the power to do that, Chairman Pai.

Mr. PAI. We would have to change our rules to do that, but that is——

Senator MCCASKILL. I am down for that. And, by the way, we have two people here that are all about getting rid of stupid regulations, and if there is a regulation that is keeping you from quickly changing the rule to stop the override on the duplicate database, you have three champions right here, three warriors that will help you.

Mr. PAI. Well, I appreciate that and would be happy to work with you and your staffs on it going forward.

Senator MCCASKILL. Thank you.

Chairman JOHNSON. Or, come up with a whole new system that is fraud-proof in terms of distribution of these phones. Senator Heitkamp.

OPENING STATEMENT OF SENATOR HEITKAMP

Senator HEITKAMP. I want to start out by just telling you that I hope we all appreciate how critically important this program is to saving lives. The access to communications, if you have ever seen any example of how critical maintaining access to communications is, you can look at Hurricane Harvey, you can look at what

happened with Hurricane Irma. This is a program that is about saving lives. When I look at this program, I think about it in the context of 911 programs. I think of it in the context of all of the other availability for especially older elderly to live in their homes, to live worry-free in their homes, and still have that access. So, this is not a choice for me of throwing out the baby with the bath water. But, you have to get it right.

And so, I want to talk about what could be kind of a reaction to the GAO report. In the report issued by GAO in May, they recommend the Universal Service Administrative Company transfer their funds which are currently held in private bank accounts into the Treasury. I am concerned that that could be done without assurances that the funds would be rated or transferred around to help pay down the debt, or in the case of extraordinary measures, used when we are hitting close to the debt ceiling. And, I think it is critical that the universal service fee maintain its ability to access these funds without implementation to maintain the continuity providers rely on.

And one thing, we all grouse when we pay the additional taxes and we pay the additional fees when we pay our communications bills, but I do it with a smile because I think that means that a Grandma in her home still able to live has access to important and critical communications services.

And so, those funds are intended for that purpose, and what are we going to do to guarantee if we do follow the GAO recommendation to transfer them into bank accounts that those funds are insulated or protected against utilization for other purposes? Mr. Pai.

Mr. PAI. Senator, thank you for the question. My understanding is that the funds being transferred to Treasury actually make the universal service funds more insured against the risk of loss, that there are Federal management and other practices that the Treasury observes that will make sure that those funds are there for the grandmother that you spoke about.

The second point is that my understanding is that those funds, once transferred to Treasury, would be used to offset debts that are owed by payees. And so, for example, if Party X owes money to the IRS and that party is also getting Lifeline subsidies from the FCC, those funds being in Treasury would be allowed to be an offset, which is a way of giving the Federal Government more flexibility.

Senator HEITKAMP. Well, we are going to be watching very closely the administration of those funds to guarantee that those funds are utilized the way, when I pay my bill, I expect them to be utilized.

I want to just talk more systematic, because I think Senator McCaskill and Senator Johnson—I mean, we are always amazed because it is like when people come in front of our Committee and you think, oh, we just discovered this problem, guess what? We did not just discover this problem. This is a problem that has been ongoing for a lot of years. Why is it that there never seems to be urgency in solving this problem when we discover it, a problem of fraud, waste, and abuse? We would think you would jump on that, say, man, we do not want to go in front of Claire and Ron because they are going to have our lunch. Why is it that I envision them in 2 years we are going to be back here talking about the same

thing unless people really get that our expectation is that in protecting the Federal fisc, you have to act with immediacy and urgency when you see a problem. And, why is it that we do not seem to get that?

Mr. PAI. Senator, I could not agree with you more, and as Senator McCaskill knows, because we have talked about this issue, she and I, for many years now, when I was a Commissioner, I was irritated about the fact that the prior administration of the FCC did not make this a priority. That is why I started my own investigation as a minority Commissioner because I wanted to get facts. I sent USAC a number of letters in my capacity as a Commissioner because I did not have the chance to set the agenda for the agency, but I wanted Congress and the American public to know that someone at the FCC was looking at this issue.

Now that I am in the driver's seat, it is a top priority, and we have an enforcement plan to go after the unscrupulous actors. I sent to USAC a very detailed letter on July 11th saying weed out the dead subscribers, weed out the ineligible subscribers. Make these sales agents register with USAC before they get to dip into the database. These are some of the steps we are taking to make sure that the problems we saw in 2014, 2015, and 2016 under the prior leadership do not continue. And, I want you to be able to go back to North Dakota and say, "This program is delivering for the grandmother who deserves it and nobody else, no unscrupulous actors, no undeserving beneficiaries."

Senator HEITKAMP. Mr. Pai, you are a big thinker. That is your reputation in town, that you think beyond what you are doing. Offer us some advice on how we can create a greater sense of urgency in the bureaucracy—I am not even going to say "the administration" because I do not think—this is an administration to administration problem. We do oversight. We cannot sit here and administer agencies, and we only respond when we have hearings like this. But, give me three good ideas on how we can create a greater sense of urgency when people spot fraud, waste, or abuse or just have a good idea that could promote government efficiency.

Mr. PAI. Well, that is a good question, Senator, and you are certainly putting my reputation, if that is earned, on the line.

Senator HEITKAMP. I do not always agree with you, but you are known as a big thinker. [Laughter.]

Mr. PAI. We were doing so well. Senator, I will say a couple different ideas that spring to my mind, especially after reading the GAO report.

First, it is always better, I think, to have up-front verification as opposed to after-the-fact enforcement. The pay-and-chase model that was described in the GAO report is never going to be sufficient. It is going to be, as Senator McCaskill has described it before, sort of like whack-a-mole. You just hope to catch the ones that you can after the fact. So, having up-front verification is very important.

Second, one of the things that Senator McCaskill has talked about, including today, is having a cap, a budget for the program. I think any family in the United States knows, OK, before going out and spending a bunch of money, let us see how much money

we have available, and we do not want to go above that money. We do not have a meaningful budget mechanism for the Lifeline program, and that is something that I think many advocates have talked about as well.

The third thing—and this is much bigger picture, but we have to think about what is the purpose of the program and does the FCC, and USAC on our behalf, have the ability to monitor with key metrics whether we are meeting that goal? As the GAO report points out, we do not have the ability right now to know, for example, are these funds actually going to people who otherwise have non-Lifeline phone services and other services? We need to make sure that we figure out what the goal is and then measure whether the program is meeting that goal in a very quantitative way. That is something, I think, that Congress could certainly look at.

Senator HEITKAMP. Just to close the loop on that, Mr. Chairman, Senator Lankford and I just had a hearing yesterday talking about government efficiency, and we talked about the lack of cost-benefit analysis on existing programs. We do it on regulations, major regulations, but we do not analyze ongoing programs probably as adequately as what we should.

Chairman JOHNSON. Is that term not an oxymoron, “government efficiency”? [Laughter.]

Thanks, Senator Heitkamp.

I do want to point out, the three witnesses we have before us, they are wearing white hats. These are individuals who are going to be partners with this Committee to do this. We will hold everybody accountable, but we are venting frustration up here, but I think we really do have three individuals before us that want to get to the bottom of this, want to take a look at the rules and regulations, alter them, control this, and fix this problem. So, I want to point that out. Senator Daines.

OPENING STATEMENT OF SENATOR DAINES

Senator DAINES. Thank you, Mr. Chairman, Ranking Member McCaskill. I first want to thank the witnesses for highlighting the need to reform the Lifeline program in order to curb the waste, fraud, and abuse. I cannot even think how many times I have used the words “waste, fraud, and abuse” as it relates to programs in the Federal Government, and I applaud your efforts in doing this. And, Mr. Chairman, as well, thank you for your leadership here as taxpayers.

I also appreciate the leadership we have seen from Chairman Pai and the reform of the FCC has already made to the program. It is a very good start.

Chairman Pai, you often speak of closing this digital divide. This is an important goal. But, I want to also add one more part which is probably closing the rural-urban divide as well, closing that rural gap. I see so often your decisions in government focus on the needs of the population centers, and I understand that rationale, but sometimes forget States like Montana that have a very strong rural thread that runs through it, and I know you grew up that way in Kansas. A decision or solution that might make sense and work in San Francisco may not work and probably will not work in a place like Richey, Montana. We are seeing a broadband explosion across

the United States. However, it is confined more to cities and to urban areas. Free Wi-Fi can be found in coffee shops, book stores, and now even whole cities are adopting municipal Wi-Fi systems. While they are thinking about going from 4G to 5G, we still have not found the alphabet sometimes in parts of Montana. However, with each new expansion in our major cities, rural States are left with nothing.

In fact, I just saw a Brookings Institution study that showed one in four rural residents do not have access to broadband. And, as a Westerner, sometimes when I come back here, back east, there is kind of this highbrow mentality on the East Coast where you grew up, where you went to school. I can tell you the folks out in rural America are as sophisticated, as well educated, and have, frankly, more common sense than most in this Nation. Compared now to 0.6 percent of those living in cities, so one in four in rural areas do not have access, 0.6 percent in the cities. This rural gap hurts Montana, it hurts rural States where we lack access to even the most basic forms of broadband communication.

As you know, I was part of building a world-class cloud computing company headquartered in Montana that Oracle later acquired, that had products in 33 different languages. In fact, Oracle took our cloud expertise and elevated that to leave the entire Oracle cloud, the seventh largest cloud computing company in the world, and they took Montana expertise here, elevated it to the world.

Chairman Pai, how can we reform Lifeline and other USF programs to focus on those who have nothing before upgrading those who already have good access?

Mr. PAI. Senator, thanks for the question, and you put your finger on the central problem that we are discussing today, which is that, by definition, a dollar that goes to somebody who does not need the help is a dollar denied from someone who does. And, that is the core of this FCC's mission in terms of closing the digital divide, is ensuring that scarce Federal dollars are devoted to where they are absolutely needed. And, in the Lifeline context, that means that we weed out the waste, fraud, and abuse, the dead subscribers who are getting Lifeline benefits, the \$137 million or more annually that GAO pointed out that is wasted. We need to make sure that those dollars are directed to the people who are on the wrong side of the divide, who need the help, to make sure that they have a chance to participate in the digital economy just like the folks in bigger cities.

Senator DAINES. Yes, as we have said, technology now has removed geography as a constraint, where some of our best and brightest who bring incredible capacities to the workforce, but have been disconnected because of this divide, and this is closing. And, as a Nation, as we think going forward here of bringing not only their competencies professionally to the 21st Century economy, they bring a work ethic that is exceptional. When you get raised getting up early, having to take care of what needs to be done, you are up early—I was struck the other day. Some farmers and ranchers came here to the office, and they are struck by the fact that D.C. does not start until 9:00 in the morning, oftentimes. And, I remind them, I said they do stay here late. But, they reminded me,

the Montana Legislature, their hearings start at 8 a.m. That would be unheard of here in Washington, D.C. But, the point is you have a strong work ethic, and you have this great workforce here that is ready to engage in this global economy.

I want to shift gears here to the National Verifier. One of the solutions GAO has proposed and the FCC has already taken action on is the National Verifier. Although no solutions are ever perfect, I think this is a step in the right direction, reducing the waste, fraud, and abuse. There, I said it again.

Mr. Chairman, could you outline the status of the National Verifier program and some of the benefit and shortfalls? And, the second part of this question would be: How will this program work in a State like Montana where many of these rural customers do not have access to the broadband needed to even sign up or may have other difficulties that arise from living a long ways from town?

Mr. PAI. Sure, Senator. So, in terms of the status, we are working actively with USAC, and I am sure Ms. Robinson could also give you an update. But we are on track to roll out the National Verifier in six States by the end of this year, a couple dozen more by the end of 2018, and then full national implementation by the end of 2019. That is certainly our goal, and we are actively working with all relevant jurisdictions, including States like Montana, to make sure that we have a chance to integrate the data that they have into that verifier.

I also should add, by the way, that the National Verifier is an important tool with respect to Lifeline in terms of eligibility. It is not the only tool. There are other administrative actions that the FCC needs to take, and USAC on our behalf can take, as well as potential programmatic changes that could help stop this problem. So, eligibility is important, but there are other tools in the toolbox that we need to consider as well.

Senator DAINES. I am running out of time. Ms. Robinson, I am just reading lots of body language here. You have some things to share here. I have limited time, but I would like your thoughts as well, please.

Ms. ROBINSON. I am happy to add a little bit, some additional detail around the status of the National Verifier. We are very passionate about that, and we think it will be a great tool.

Senator DAINES. Yes.

Ms. ROBINSON. Your State is one of the six States that will be included in the initial launch of the six States. I am happy to report again or to reiterate that currently we are running on budget and to be on time. We are projecting to have our soft launch of the National Verifier in December of this year, going with the six States, including Montana, and we also have secured an agreement with the Department of Housing and Urban Development (HUD) to have Federal matching of eligibility using Federal housing information. And, we are targeting our hard launch in March 2018, so things are moving along great.

Of course, there have been some challenges we have to deal with various privacy issues and things of that nature when looking to deal with States, but they are not insurmountable. And, we also recognize that there will not necessarily be matching in all of the

States, and we are moving along with the understanding that we will have a combination of matching with States, Federal databases, but also some manual use. I can give you information on cost if you would like that as well, Senator.

Senator DAINES. I am out of time, so I will respect the Chairman. But we can follow up with you on that.

Ms. ROBINSON. Absolutely.

Senator DAINES. Thank you for including Montana.

Ms. ROBINSON. Absolutely.

Senator DAINES. If you get a chance to come out there, you are going to find you will meet some great folks out there. They will be very excited about moving forward.

Ms. ROBINSON. We are excited about that.

Senator DAINES. Thank you.

Thank you, Mr. Chairman.

Chairman JOHNSON. Senator McCaskill.

Senator MCCASKILL. First, for the argument that has been made in other settings to GAO that this report is outdated based on the changes to the program that have actually been implemented since 2014, do you believe your results would have been significantly different based on the changes that have actually been implemented?

Mr. BAGDOYAN. Thank you for the question, Senator McCaskill. The analytics we performed were a point in time. I want to be absolutely clear with that, and their purpose was first and foremost to flag indicators of potential fraud, waste, or abuse, not reach a definitive conclusion about that. So, that is very important to know that.

As you know, we are working with the FCC IG and with this Committee to provide referrals for follow up action to see exactly what happened, both in the analytics part as well as the undercover part. So, that is the first point.

The second point is I believe, my team believes, that while what has happened since the analytics were performed, a lot of our audit work was performed, are steps in the right direction. But, to be perfectly candid, they would not materially change what we found and what it means.

Senator MCCASKILL. Thank you for that. And briefly, you mentioned about contractor oversight, the fact that we now know that these carriers are now farming out to sometimes overseas call centers calling to try to sign up customers. Did I hear you say you have taken a step—that they cannot do that now without being cleared by USAC?

Mr. PAI. Senator, I did not mention that. I do not know if Ms. Robinson did. But, obviously we hold the providers responsible and liable for any actions that their agents might take on their behalf, and that is one of the things we have reiterated.

Senator MCCASKILL. OK. I am sure those contractors are being compensated by virtue of how many people they sign up.

Mr. PAI. And, that is one of the issues that we flagged. So, long as those incentives remain, the behavior will tend to follow.

Senator MCCASKILL. Finally, on contribution audits, I was interested in that portion of your report. We know that they are incorrectly assessing these fees based on this audit. Sometimes they are charging under. Importantly, many times they are charging over.

What are you doing to make sure consumers get refunds? I mean, this is a class-action lawsuit waiting to happen. I am surprised it has not happened yet. Have you guys not been sued in a class action yet for people being charged too much for these fees on their phone bills, being assessed incorrectly?

Mr. PAI. We have not yet, but the day is young, I suppose.

Senator McCASKILL. Yes, I bet you do, because it is perfect for a class-action suit because one individual, it is what, maybe a dollar a month? But if you have thousands of people that are being overcharged a dollar a month, that is a lot of money to these carriers, and they clearly are getting away with that. So, what steps have you taken on that?

Mr. PAI. Senator, here, too, I was disturbed by some of the findings of the GAO, and we accepted that recommendation, and that is one of the things we are looking at going forward, is making sure that if a customer sees that line item on his or her bill, he or she can have, must have confidence that, OK, this is the exact amount that I am owed, because as you pointed out, a lot of these folks, customers who were overcharged, they will never figure it out. Or even if they figure it out, there is not much recourse they can have.

Senator McCASKILL. And, it is real found money for these guys.

Mr. PAI. Oh, it is a lot of money.

Senator McCASKILL. So, I hope you get after that. I will be following up on that one, too.

Mr. PAI. Absolutely, Senator.

Senator McCASKILL. Thank you, Mr. Chairman. And, tell everybody at GAO how proud I am of this audit. This is a really good job.

Mr. BAGDOYAN. Thank you, Senator. I really appreciate that. Thank you.

Chairman JOHNSON. Thank you, Senator McCaskill, and I know you have to leave for Finance, so I will close it out here after a couple of questions.

I do want to ask consent to enter in the record a study by Olga Ukhaneva from Georgetown University.¹ It is "Universal Service in a Wireless World," and it kind of gets to the point that I made earlier about prioritization of spending, where maybe money from the Universal Service Fund might be better spent, kind of what Senator Daines was talking about, it is great if you can get a phone, but if you do not have the broadband to be able to effectively use it.

The summary of this study, on the front page it says, "Results indicate that the Lifeline program increases a households propensity to subscribe to phone service. However, the effects are quite small. Findings reveal that the subsidy, as it has evolved, suffers from a great deal of infra-marginal subscribers and would benefit from restructuring." I would call that an understatement.

But here is kind of the data behind this, and I want to get your reaction. They really found that out of all the landlines and wireless, basically one out of eight of the subscribers needed the program. In other words, seven out of eight would have had a landline or wireless anyway. When it was just wireless, only 1 out of 20,

¹ The report referenced by Senator Johnson appears in the Appendix on page 151.

which means that 19 of the subscribers of wireless would have had a phone anyway and truly did not need it.

Now, everybody likes free money. Everybody likes to get that subsidy. But it is kind of beyond the Lifeline, and when we are \$20 trillion in debt, when we have a Universal Service Fund that we really could allocate money to the Mobility Fund for rural access to broadband to increase that access, does this really make sense?

So, kind of what I am hearing within this hearing is this is an important service. Now, I think for some people, certainly the Lifeline name is relevant, but maybe not to 19 out of 20. And so, I just kind of want to get your reaction to this study. We will start with you, Mr. Bagdoyan, and does this kind of comport with what you found in your assessments?

Mr. BAGDOYAN. Well, we really did not look at it from the policy and impact perspective, certainly, but throughout this study, it is pretty consistent that historically this has been a low participation program. I think roughly we mentioned a third, 33 or so percent penetration of the eligible universe, which means the other 66 or so percent pay into the program without benefiting from it.

Chairman JOHNSON. And, by the way, of the third, some of those were 10,000 being billed to one household.

Mr. BAGDOYAN. Well, since you bring that up, I would also add that we verified with the Postal Service that that is not a valid address, by the way. So, I just wanted to make sure that we close the loop on that example. But, yes, in a prior report, GAO mentioned that study by the professor, and we thought that it was robust methodologically, so the findings are pretty eye-opening in terms of who gets what and for what purposes.

Chairman JOHNSON. I want the other two witnesses to react to that, but while I am talking to you, your study was really, like you said, trying to find indicators of waste, fraud, and abuse.

As opposed to an overall study that says this is how much waste we believe really exists.

Mr. BAGDOYAN. Correct, right.

Chairman JOHNSON. Could you expand this with relative ease? Or, are there other studies being undertaken either through the Inspector General or through the FCC directly to try and get some figure of the \$1.5 billion we are spending, that this much is being wasted?

Mr. BAGDOYAN. That is a great question, and we are working with the FCC OIG, their investigative component, to make referrals. We are in the process of untangling the original analysis so that we identify individuals and the phone companies that they got their service from among the 1.2 million, as well as provide the appropriate leads from our undercover work for them to follow up. They are fully staffed and eager to work with us to get those referrals to really get to the bottom of what happened in these cases, whether these are fraudulent or legitimate ones that simply fell through the cracks in terms of the process.

So, we are not going to do that work, but we are going to make the referrals and track them over time to see what happens.

Chairman JOHNSON. In business, you generally follow the 80/20 rule: 80 percent of your sales really go through about 20 percent

of your customers. Is that kind of true in terms of these providers as well?

Mr. BAGDOYAN. Yes, that is a great point. I believe—and Chairman Pai may correct me—that roughly the top 30 providers account for maybe 85 or 90-plus percent of the business.

Chairman JOHNSON. So, how difficult would it be to go in there and do a real detailed forensic audit of 30 providers to really get to the bottom of this? Is that not the way we should approach this?

Mr. BAGDOYAN. Of course, yes, it would be a pretty good undertaking for GAO, but also the OIG would have a vast role in doing that as well.

Chairman JOHNSON. Again, financial audits are relatively simple, so that would be from my standpoint—is anybody doing that? Is that an action that is being taken right now?

Mr. PAI. Not currently, Senator, but that is certainly something that I think we should think about very seriously.

Chairman JOHNSON. I would highly recommend that. I would start that next week. You want to get some control over this thing, send in 30 audit teams to those 30 top providers, and we would have a pretty good indication very early on, how much really is being wasted and what kind of enforcement action needs to be taken.

Chairman Pai, why don't you kind of comment on the one out of 8 and one out of 20.

Mr. PAI. That study to me is exceptionally disturbing, and if the study's methodology and conclusions are sound, then it means that the benefit is not necessarily worthy of the name, that the program is not necessarily closing the digital divide, because the entire premise is that we give these \$9.25 subsidies to people who otherwise would be disconnected. And, if they are otherwise willing and able to subscribe to communications services or do, in fact, have non-Lifeline subscriptions already, then essentially we are not doing anything other than going on the treadmill, so to speak. So, I think it is incredibly important for us to make sure, as I mentioned in our exchange with Senator Heitkamp, that the agency has a goal in mind. What is the goal of the program? And then, measure us against that goal to make sure that we are not subsidizing people who do not actually need the help.

Chairman JOHNSON. We just do not have the money to waste.

Ms. Robinson, do you want to comment on that at all?

Ms. ROBINSON. Sure. I just would add two or three points, Chairman Johnson.

On the first point, with respect to sort of what we are doing with the FCC to actually sort of measure the effectiveness of the program, just yesterday we actually released a Request for Proposal (RFP) to actually begin to do that work, to do a risk assessment, to actually begin to ask those hard questions. Is the Lifeline program working as it is intended to work? Because that is important. That is really the question that is before us, and we are doing that in close coordination with the FCC, and we look forward to begin to do that work, to have it inform what we are doing in this regard. And, that was really as a result of GAO's great work a few years ago. It has taken us a while to get there, but we are doing it now

under Chairman Pai's leadership, and I think that is a great undertaking. I have appreciated the support in that regard.

Also, with respect to—you also talked about auditing and taking a look at some providers and outliers, Chairman Pai has actually directed us to do that in his July 11th letter, to take the top 10 offenders, as it were, in GAO's report and to begin to do sampling work to really sort of dig behind things that they are doing. And, we are beginning that work as well. So, we are taking really an all-hands approach both in terms of looking at the effectiveness of the program, but also looking at right now who is sort of on the radar right now and what can we do about it.

Chairman JOHNSON. So, let me just interject. Let me suggest that there are really 30 top suppliers. Go to the private sector, go to the big three or four accounting firms, have them send in a forensic audit team. You could pay them on a commission basis based on what they are able to recover. They would probably do it for 1 percent. OK, get in there and do it now. My concern about kind of doing it the old government way is we go in there, we do assessments, then we have another study and we have another hearing like this 2 years from now. Go in there assuming—because I think it is a pretty good assumption—you are going to find a lot of waste, a lot of fraud, that we need to get under control like right now. This is your money. That would be my suggestion. You will probably be getting a letter from me suggesting exactly that. But I interrupted.

Ms. ROBINSON. That is really all I had to say, Mr. Chairman. I thank you for your suggestion and look forward to your letter.

Chairman JOHNSON. Again, we have gotten a little grumpy up here, not directed at you whatsoever. This is just a real head shaker here. And, I realize all three of you are really trying to work and get this under control, and we truly appreciate your efforts, and, again, your time, your testimony, your answers to our questions.

With that, I will close out the hearing by saying the hearing record will remain open for 15 days until September 29th at 5 p.m. for the submission of statements and questions for the record.

This hearing is adjourned.

[Whereupon, at 11:36 a.m., the Committee was adjourned.]

A P P E N D I X

Opening Statement of Chairman Ron Johnson
Thursday, September 14, 2017
“FCC’s Lifeline Program: A Case Study of Government Waste and Mismanagement”

Good morning and welcome. Today we will examine the Lifeline program, one of four programs funded by the Universal Service Fund. Congress established the Universal Service Fund in 1996 under the premise that “[c]onsumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services.”

Since its inception, the Lifeline program has been plagued by waste, fraud, and abuse. This redirects valuable taxpayer dollars away from universal service. Today, we will hear from the non-partisan Government Accountability Office, which has spent a year analyzing this program. Its findings are staggering. Out of a sample of 3.4 million Lifeline subscribers, GAO was unable to verify whether 1.2 million subscribers were enrolled in the public-assistance program they claimed on their Lifeline application to qualify for the program. GAO also identified 6,378 beneficiaries that appeared on the Social Security Administration’s Death Master File and 5,510 potential duplicates. Based on these findings, we are likely allocating approximately \$140 million annually to fraudulent subscribers.

GAO’s review went even further. A GAO undercover investigator was able to gain employment with one Lifeline provider and fraudulently sign consumers up for Lifeline service. Since it is industry practice to compensate Lifeline employees through commissions, GAO raised concerns with the ease in which its investigator gained employment and registered subscribers.

Finally, and importantly, GAO found that while 38.8 million U.S. households are eligible for Lifeline, only 32 percent, or 12.5 million are actually enrolled in the program. Other studies have revealed that 7 out of 8 Lifeline subscribers (and 19 out of 20 wireless Lifeline subscribers) would have subscribed to phone service *without* the Lifeline subsidy through commercially available options. As we consider reforms to the program, we must consider ways to target those who actually need this lifeline. I would also like to explore today whether some Lifeline money would be better spent in other universal service programs with higher adoption rates and lower rates of fraud, such as the high cost fund. In my home state of Wisconsin, I frequently meet with broadband providers trying to connect homes in rural parts of the state. Chairman Pai joined me for one of these meetings in June of this year. Redirecting Lifeline money could incentive tighter controls and increase overall universal service.

Supporters of the Lifeline program brush off GAO’s findings, arguing that GAO analyzed data from 2014 which did not take into account changes the Federal Communications Commission (FCC) made in 2015 and 2016 to reform the Lifeline program. First, the main reform was the establishment of a National Lifeline Eligibility Verifier, which will not be operational until 2019. Second, the National Verifier will only address the issue of eligibility. It will not prevent duplicates, fake addresses, or phantom subscribers. Third, the picture painted from this report shows a program with systematic weaknesses that cannot be solved overnight. Continued oversight and reforms will be necessary. FCC Chairman Ajit Pai and the Universal Service Administrative Company Acting CEO Vickie Robinson are both here to discuss their plans for implementing these necessary reforms.

I thank all of our witnesses for being here today. I look forward to your testimony.

Opening Statement of Ranking Member Claire McCaskill
Thursday, September 14, 2017
“FCC’s Lifeline Program: A Case Study of Government Waste and Mismanagement”

First, I’m really grateful Mr. Chairman that you agreed to hold this hearing. It is really important. I have been working on this, as Chairman Pai will tell you, for years. It all began when I got a solicitation for a free phone at the condominium I stay at in Washington. I looked at it and thought “what in the world?” and brought it to work and said “what is this?” I then began to dive in and realized how poorly designed this program was from the get-go. You correctly pointed out that this program began under Reagan. The wireless part of this program began under President Bush. This program was set up in a way that was fatally flawed under President Bush. Then these phones became known as the “Obama Phones,” so I want to make sure everyone knows there are lots of parents of this particular program that has gone awry. We are going to spend a lot of time talking today about what has gone wrong with the lifeline program. I know there are lots of people who depend on the lifeline program, and I know that we need to look at ways we can support them. But the idea that we can continue a program that is still structurally deficient, in the same way we have been doing it, is frankly a non-starter for me.

The combination of ineffective oversight and the greed of private carriers has led to hundreds of millions of dollars of wasted public money. Since 2014, when the GAO began the most recent audit that I requested, the FCC has identified and pursued several companies that have fraudulently profited from the lifeline program. However, this investigation demonstrates this may only be the tip of the iceberg. GAO’s multiyear audit found evidence suggesting that lifeline may have paid more than \$138 million a year in subsidies for 1.2 million potentially fraudulent accounts. We’re not talking about highly sophisticated fraud here. There were 1.2 million accounts that were either duplicates of existing subscribers or there was no record that the listed subscriber was actually eligible or where the subscriber is dead. It should not have taken a three-year GAO audit to spot these glaring red flags. I am so grateful for GAO’s hard work. I asked them to assess the effectiveness of the 2012 reforms, which began after my solicitation in 2011, and I began hollering about this on the Commerce Committee. I don’t believe any of us could have anticipated the extent of the problems that GAO would uncover, in spite of the 2012 reforms.

I would like to personally thank GAO who has spent more than three years on this, and I would like to thank the team, your team Mr. Bagdoyan, that did this. I know that, as a former auditor, there is a tremendous amount of focus and dedication needed for an audit like this. I also know that the FCC and the USAC have taken steps to improve the oversight. Today we will hear from the FCC Chairman and the Acting Executive Director of USAC about the efforts underway to combat the waste, fraud, and abuse that have long plagued this program. I do not

doubt the sincerity of the FCC and USAC and their desire to address the shortcomings. The reality is that these are not new problems, which investigative journalists and the FCC OIG and many of my colleagues in congress have pointed out time and time again over the last decade.

Chairman Pai, you have been among those who have brought attention to lifeline's serious weaknesses. During your time as an FCC Commissioner, you urged the FCC to implement much needed reforms and called for proactive measures to increase accountability and more aggressive enforcement. Now that you are leading the Commission, I am cautiously optimistic about the possibility of meaningful reform. I know that you are aware that past attempts to increase accountability have fallen woefully short. One of the reasons for these past failures is that many of the weaknesses are deeply entrenched in the basic structure of the program. You don't tell people that they get to verify whether or not somebody needs a phone when they are the ones that are going to make the money if they verify the phone. It will never work because the incentives are in the wrong place. The incentives are to override the database. The incentives are to put more people on the program because every person you put on the program is \$9.25 a month to your company, and it is just a money maker to push the envelope.

It does not take an auditor to tell you it might not be the best idea to blindly trust the companies that are going to make the money who receive \$1.5 billion from this program based on the number of accounts they receive. The FCC has taken the initial step to address this structural flaw by creating the National Eligibility Verifier to independently screen eligibility; however, last year's lifeline reform order does not require that crucial reform to be complete until the end of 2019 and there are still mechanisms to override that the companies can do. So if we know the companies are overriding the database now, I have no confidence they are not going to override and self-certify over the National Verifier.

We have made progress—I do want to acknowledge that. This program went from about \$800 million to \$2.2 billion in breakneck speed, then we began the reforms and found massive duplications, and it fell down to about \$1.5 billion now. We just skimmed the surface and found \$600 million which, by the way, is real money that is desperately needed for rural broadband deployment. I have a lot of questions particularly on the enforcement end. We have \$94 million that has been identified that should be paid back. The companies that should be paying this back get over \$1 billion a year from this program and, guess what, they have not paid us a dime—not one thin nickel. I do not understand why we keep paying these companies who owe us money, so be prepared for that question as I need an answer. Thank you, Mr. Chairman, for this hearing.



United States Government Accountability Office

Testimony
Before the Committee on Homeland
Security and Governmental Affairs, U.S.
Senate

For Release on Delivery
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TELECOMMUNICATIONS

Additional Action Needed to Mitigate Significant Risks in FCC's Lifeline Program

Statement of Seto Bagdoyan, Director, Forensic
Audits and Investigative Service

GAO Highlights

U.S. DEPARTMENT OF COMMERCE
OFFICE OF TELECOMMUNICATIONS
AND COMMUNICATIONS, FCC, BUREAU

Why GAO Did This Study

Created in the mid-1990s, FCC's Lifeline program provides discounts to eligible low-income households for phone or broadband telephone and, as of December 2016, broadband service. Lifeline reduces telephone companies that offer discounts through the USF, which in turn is generally supported by consumers by means of a fee charged on their telephone bills.

This testimony is based on GAO's May 2017 report and subsequent steps FCC has taken to improve Lifeline's performance in meeting goals. Steps FCC and USAC have taken to enhance controls over finances, subscribers, and providers, and any weaknesses that might remain.

For the May 2017 report, GAO reviewed documents and interviewed officials from FCC and USAC. GAO also analyzed subscriber data from data and performed additional work to identify areas of potential program weakness. The results of this analysis and testing are illustrative, not generalizable.

What GAO Recommends

In its May 2017 report, GAO made seven recommendations, including that FCC require a plan to transfer the USF funds back to the Treasury by the end of 2018. FCC partially agreed with all the recommendations.

GAO's report, *Universal Service Fund: FCC's Report of 2017*, is available at www.gao.gov.

September 2017

TELECOMMUNICATIONS

Additional Action Needed to Mitigate Significant Risks in FCC's Lifeline Program

What GAO Found

In its May 2017 report GAO found the Federal Communications Commission (FCC) has not evaluated the Lifeline program's (Lifeline) performance in meeting its goals of increasing telephone and broadband subscriptions among low-income households by providing financial support, but it has recently taken steps to begin to do so. FCC does not know how many of the 12.3 million households receiving Lifeline as of December 2016 also have non-Lifeline phone service, or whether participants are using Lifeline as a secondary phone service. FCC revamped Lifeline in March 2016 to focus on broadband adoption; however, broadband adoption rates have steadily increased for the low-income population absent a Lifeline subsidy for broadband. Without an evaluation, which GAO recommended in March 2015, FCC is limited in its ability to demonstrate whether Lifeline is efficiently and effectively meeting its program goals. In a March 2016 Order, FCC announced plans for an independent third party to evaluate Lifeline design, function, and administration by December 2020.

FCC and the Universal Service Administrative Company (USAC)—the not-for-profit organization that administers the Lifeline program—have taken some steps to enhance controls over finances and subscriber enrollment. For example, FCC and USAC established some financial and management controls regarding billing, collection, and disbursement of funds for Lifeline. To enhance the program's ability to detect and prevent ineligible subscribers from enrolling, FCC oversaw completion in 2014 of an enrollment database and, in June 2015, FCC adopted a rule requiring Lifeline providers to retain eligibility documentation used to qualify consumers for Lifeline support to improve the auditability and enforcement of FCC rules.

Nevertheless, in its May 2017 report, GAO found weaknesses in several areas. For example, Lifeline's structure relies on over 2,000 Eligible Telecommunication Carriers that are Lifeline providers to implement key program functions, such as verifying subscriber eligibility. This complex internal control environment is susceptible to risk of fraud, waste, and abuse as companies may have financial incentives to enroll as many customers as possible. On the basis of its matching of subscriber to benefit data, GAO was unable to confirm whether about 1.2 million individuals of the 5.5 million it reviewed, or 26 percent, participated in a qualifying benefit program, such as Medicaid, as stated on their Lifeline enrollment application. FCC's 2016 Order calls for the creation of a third-party national eligibility verifier by the end of 2018 to determine subscriber eligibility. Further, FCC maintains the Universal Service Fund (USF)—with net assets of \$9 billion, as of September 2016—outside the Department of the Treasury in a private bank account. In 2005, GAO recommended that FCC reconsider this arrangement given that the USF consists of federal funds. In addition to addressing any risks associated with having the funds outside the Treasury, FCC identifies potential benefits of moving the funds. For example, by having the funds in the Treasury, USAC would have better tools for fiscal management of the funds. In March 2017, FCC developed a preliminary plan to move the USF to the Treasury. Until FCC finalizes and implements its plan and actually moves the USF funds, the risks that FCC identified will persist and the benefits of having the funds in the Treasury will not be realized.

United States Government Accountability Office

Chairman Johnson, Ranking Member McCaskill, and Members of the Committee,

I am pleased to be here today to discuss the Federal Communications Commission's (FCC) oversight of the Lifeline program (Lifeline). Over the past two decades, telecommunications carriers and their customers have paid over \$100 billion to support the federal policy of "universal service." Universal service is the principle that all Americans should have access to communications services. FCC carries out this policy through four programs, including Lifeline.¹ Lifeline was created in the mid-1980s to promote telephone subscribership among low-income households. In the mid-2000s, such service came to include wireless communications, and, in December 2016, FCC also began including broadband service. Average Lifeline enrollment as of the fourth quarter of calendar year 2016 was approximately 12.3 million subscribers.

To participate in Lifeline, households must either have an income that is at or below 135 percent of the Federal Poverty Guidelines or participate in one of several qualifying assistance programs, such as Medicaid or the Supplemental Nutrition Assistance Program (SNAP).² After subscribers are enrolled in Lifeline, they receive a monthly benefit on home or wireless phone and broadband service. The Lifeline benefit can lower or eliminate the cost of a subscriber's monthly phone or Internet bill.

By statute, every telecommunications carrier providing interstate telecommunications services—including Lifeline providers—must contribute to federal universal service unless exempted by FCC.³ Contributions are deposited into the Universal Service Fund (USF). Although not required to do so, carriers typically pass on the cost of USF fees as a separate line item to their customers' phone bills. A not-for-

¹The other three programs are (1) the High-Cost Program, which assists telecommunications carriers serving high-cost, rural, or insular areas; (2) the Schools and Libraries Program, which assists eligible schools and libraries in procuring telecommunications services, Internet access services, internal connections, and basic maintenance of internal connections; and (3) the Rural Health Care Program, which provides support to eligible health-care providers through discounts for broadband and telecommunications services.

²Medicaid is a joint federal-state health-coverage program for certain low-income and medically needy individuals. SNAP, previously known as the Food Stamp Program, offers nutrition assistance to eligible, low-income individuals and families.

³47 U.S.C. § 254(d).

profit, private corporation designated by FCC as the administrator of universal service programs, the Universal Service Administrative Company (USAC)⁴ pays Lifeline providers a subsidy from the USF for each subscriber to offset forgone revenues. From calendar year 1998 through 2016, USAC had disbursed approximately \$20.2 billion to Lifeline providers.

In May 2017, we published a report on FCC's oversight of Lifeline that identified steps FCC has taken in the last few years to enhance the integrity of the program and stated the weaknesses that remained.⁵ We also made seven recommendations to improve FCC's oversight of the program, which the agency agreed to implement.

My statement today discusses key findings from our May 2017 report, as well as steps FCC has taken and the related recommendations we made. Specifically, this testimony discusses (1) the extent to which Lifeline demonstrates effective performance towards program goals; (2) steps FCC and USAC have taken to improve financial controls in place for Lifeline and the USF, and any remaining weaknesses that might exist; (3) steps FCC and USAC have taken to improve subscriber eligibility verification, and any remaining weaknesses that might exist; and (4) steps FCC and USAC have taken to improve oversight of Lifeline providers, and any remaining weaknesses that might exist.

For our May 2017 report, we reviewed documents and interviewed multiple stakeholders associated with Lifeline, including FCC, FCC's Office of Inspector General (OIG), and USAC, among others. We also examined USAC financial data, including USF bank account statements and payment data, and interviewed USF account managers at the bank that holds USF funding. Further, we reviewed internal financial controls established by FCC and USAC and performed data matching and analysis to identify potential improper payments using Lifeline's enrollment data from the National Lifeline Accountability Database (NLAD) and relevant beneficiary databases. The results of the data

⁴According to USAC documents, USAC is not a federal agency, government corporation, government-controlled corporation, or other establishment in the executive branch of the U.S. government. USAC is also not a contractor to the federal government, but is an independent, Delaware, not-for-profit, private corporation, subject to all applicable federal, state, and local taxes.

⁵GAO, *Telecommunications: Additional Action Needed to Address Significant Risks in FCC's Lifeline Program*, GAO-17-538 (Washington, D.C.: May 30, 2017).

analysis are illustrative rather than generalizable. We also performed undercover work to test the vulnerability for improper payments of funds disbursed to both subscribers and Lifeline providers. For example, we submitted 21 Lifeline applications using false information and fabricated supporting documents to determine whether we could obtain Lifeline benefits. These undercover tests were for illustrative purposes to highlight any potential internal control vulnerabilities and are not generalizable to the broader universe of subscribers and providers. Additional information on our scope and methodology is available in our May 2017 report. Our audit work was performed in accordance with generally accepted government auditing standards, and our related investigative work was done in accordance with investigative standards prescribed by the Council of the Inspectors General on Integrity and Efficiency.

**FCC Has Not
Evaluated Lifeline's
Performance in
Meeting Program
Goals but Has Taken
Recent Steps toward
Evaluation**

FCC has not evaluated Lifeline's performance in meeting program goals but, as we found in May 2017, has taken recent steps toward evaluation. According to GAO's Cost Estimating and Assessment Guide, to use public funds effectively the government must meet the demands of today's changing world by employing effective management practices and processes, including the measurement of government program performance.⁶ In the past, FCC has called for program evaluations to review the administration of universal service generally, including Lifeline, but has not completed such evaluations. For example, FCC specified that it would review USAC 1 year after USAC was appointed as the permanent administrator to determine whether the universal service programs were being administered effectively. This review, which was planned to have been completed by 1999, was never done. In 2005, FCC awarded a contract to the National Academy of Public Administration to study the administration of the USF programs generally, examine the tradeoffs of continuing with the current structure, and identify ways to improve the oversight and operation of universal service programs. However, we reported in May 2017 that FCC officials stated FCC subsequently terminated the contract and the study was not conducted.

In March 2015, we found that FCC had not evaluated Lifeline's effectiveness in achieving its performance goals of ensuring the availability of voice service for low-income Americans, while minimizing

⁶GAO, *GAO Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs*, GAO-09-3SP (Washington, D.C.: March 2009).

the burden on those who contribute to the USF.⁷ We recommended, and FCC agreed, to conduct a program evaluation to determine the extent to which Lifeline is efficiently and effectively reaching its performance goals.

Our May 2017 report raised additional questions about Lifeline's effectiveness in meeting its program goals. For example, we reported that:

- FCC did not know how many of the 12.3 million households receiving Lifeline as of December 2016 also have non-Lifeline phone service (for which they pay out of pocket) along with their Lifeline benefit. Without knowing whether participants are using Lifeline as a primary or secondary phone service, we concluded that it is difficult for FCC to determine whether it is achieving the program's goal of increasing telephone subscribership among low-income consumers while minimizing the USF contribution burden.
- FCC revamped Lifeline in March 2016 to focus on broadband adoption and generally phase out phone service, in part because FCC recognized that most eligible consumers have phones without Lifeline and to also close the "digital divide" of broadband adoption between low-income households and the rest of the country. However, broadband adoption rates have steadily increased for the low-income population absent a Lifeline subsidy for broadband. We found that at least two companies operating in a total of at least 21 states had begun offering in-home non-Lifeline broadband wireline support for less than \$10 per month to individuals that participate in public-assistance programs, such as SNAP or public housing.⁸ The offered rate of these providers' own low-income broadband service of \$10 per month was less expensive than FCC's broadband reasonable-comparability cost benchmark of approximately \$55 per month, which Lifeline subscribers would be paying for a similar level of service.

Our May 2017 report also found that FCC has recently taken some steps toward evaluating Lifeline's performance in meeting program goals. Specifically, in the 2016 Lifeline Modernization Order, FCC instructed USAC to hire an outside, independent, third-party evaluator to complete a program evaluation of Lifeline's design, function, and administration. The

⁷GAO, *Telecommunications: FCC Should Evaluate the Efficiency and Effectiveness of the Lifeline Program*, GAO-15-335 (Washington, D.C.: Mar. 24, 2015).

⁸These advertised prices do not include taxes.

order stipulated the outside evaluator must complete the evaluation and USAC must submit the findings to FCC by December 2020. As FCC expects Lifeline enrollment to increase as the program is expanded to include broadband service, this expansion could carry with it increased risks for fraud, waste, and abuse, as was the case with past expansions of the program. Completing the program evaluation as planned, and as we recommended in 2015, would help FCC determine whether Lifeline is meeting its stated goals of increasing telephone and broadband subscribership among low-income consumers, while minimizing the burden on those who contribute to the USF.

**Financial Controls
Exist, with Others
Planned, for the
Lifeline Program, but
Weaknesses Remain**

In our May 2017 report we found that FCC and USAC have established financial controls for Lifeline, including obtaining and reviewing information about billing, collecting, and disbursing funds. They have also developed plans to establish other controls, such as establishing a national eligibility verifier (National Verifier) for Lifeline providers to determine the eligibility of applicants seeking Lifeline service. However, as discussed in our May 2017 report, we found that weaknesses remain, including the lack of requirements to effectively control program expenditures above approved levels, concerns about the transparency of fees on customers' telephone bills, and a lack of FCC guidance that could result in Lifeline and other providers paying inconsistent USF contributions. To address these concerns, we recommended the Chairman of FCC (1) require Commissioners to review and approve, as appropriate, spending above the budget in a timely manner; (2) require a review of customer bills as part of the contribution audit to include an assessment of whether the charges, including USF fees, meet FCC Truth-in-billing rules with regard to labeling, so customer bills are transparent, and appropriately labeled and described, to help consumers detect and prevent unauthorized changes; and (3) respond to USAC requests for guidance and address pending requests concerning USF contribution requirements to ensure the contribution factor is based on complete information and that USF pass-through charges are equitable. FCC generally agreed with those recommendations.

In addition, we found that USAC's banking practices for the USF result in oversight and accountability risks that FCC has plans to mitigate. Specifically, FCC maintains USF funds—whose net assets as of September 2016 exceeded \$9 billion—outside of the U.S. Treasury pursuant to Office of Management and Budget (OMB) advice provided in April 2000. OMB had concluded that the USF does not constitute public money subject to the Miscellaneous Receipts Statute, 31 U.S.C. § 3302,

a statute that requires that money received for the use of the United States be deposited in the Treasury unless otherwise authorized by law. As such, USF balances are held in a private bank account. However, subsequent to this OMB advice, in February 2005 we reported that FCC should reconsider this determination in light of the status of universal service monies as federal funds.⁹

As discussed in our May report, according to correspondence we received from the FCC Chairman's Senior Legal Counsel, as of March 2017, FCC had decided to move the funds to the Treasury. FCC identified potential benefits of moving the funds to the Treasury. For example, FCC explained that having the funds in the Treasury would provide USAC with better tools for fiscal management of the funds, including access to real-time data and more accurate and transparent data. According to FCC, until the USF is moved into the Treasury, there are also some oversight risks associated with holding the fund in a private account. For example, the contract governing the account does not provide FCC with authority to direct bank activities with respect to the funds in the event USAC ceases to be administrator of the USF. After we raised this matter with FCC officials during the course of our review, beginning in November 2016, FCC sought to amend the contract between USAC and the bank to enable the bank to act on FCC instructions independently of USAC in the event USAC ceases to be the administrator. However, as of May 2017, the amended contract had not yet been signed.

While FCC has put in place a preliminary plan to move the USF funds to the Treasury, as well as plans to amend the existing contract with the bank as an interim measure, several years have passed since this issue was brought to FCC's attention without corrective actions being implemented. Further, under FCC's preliminary plan, it would not be until next year, at the earliest, that the funds would be moved to the Treasury. In May 2017, while reviewing a draft of this report, a senior FCC official informed us that FCC experienced some challenges associated with moving the funds to the Treasury, such as coordinating across the various entities involved, which raised some questions as to when and perhaps whether the funds would be moved. Until FCC finalizes and implements its plan and moves the USF funds, the risks that FCC identified will persist and the benefits of having the funds in the Treasury

⁹GAO, *Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-Rate Program*, GAO-05-151 (Washington, D.C.: Feb. 9, 2005).

will not be realized. As a result, in our May 2017 report, we recommended that the Chairman of FCC take action to ensure that the preliminary plans to transfer the USF funds from the private bank to the Treasury are finalized and implemented as expeditiously as possible. FCC agreed with this recommendation.

FCC and USAC Have Implemented Some Controls to Improve Subscriber Eligibility Verification, but Weaknesses Remain

FCC and USAC have implemented controls to improve subscriber eligibility verification, such as implementing the NLAD database in 2014, which helps carriers identify and resolve duplicate claims for Lifeline-supported services. However, as discussed in our May 2017 report, our analysis of data from 2014, as well as our undercover attempts to obtain Lifeline service, revealed significant weaknesses in subscriber eligibility verification. Lifeline providers are generally responsible for verifying the eligibility of potential subscribers, but we found that their ability to do so is hindered by a lack of access to, or awareness of, state eligibility databases that can be used to confirm eligibility prior to enrollment. For example, not all states have databases that Lifeline providers can use to confirm eligibility and some providers with whom we spoke were unaware of databases that were potentially available to them. These challenges might be overcome if FCC establishes a National Verifier, as it plans to do nationwide by the end of 2019, to remove responsibility for verifying eligibility from the providers. Additionally, since USAC was not maintaining and providing information to providers about these databases, we recommended they maintain and disseminate an updated list of state eligibility databases available to Lifeline providers that includes the qualifying programs those databases access to confirm eligibility, to help ensure Lifeline providers are aware of state eligibility databases and USAC audits of Lifeline providers can verify that available state databases are being utilized to verify subscriber eligibility. FCC agreed with the recommendation.

For our May 2017 report, to identify Lifeline subscribers who were potentially ineligible to participate in the program, we tested the eligibility of subscribers who claimed participation in Medicaid, SNAP, and Supplemental Security Income (SSI) using NLAD data as of November 2014. We focused our analysis on these three programs because FCC reported in 2012 that these were the three qualifying programs through which most subscribers qualify for Lifeline. We compared approximately 3.4 million subscribers who, according to information entered in NLAD,

were eligible for Lifeline due to enrollment in one of these three programs to eligibility data for these programs.¹⁰

On the basis of our analysis of NLAD and public-assistance data, we could not confirm that a substantial portion of selected Lifeline beneficiaries were enrolled in the Medicaid, SNAP, and SSI programs, even though, according to the data, they qualified for Lifeline by stating on their applications that they participated in one of these programs.¹¹ In total, we were unable to confirm whether 1,234,929 subscribers out of the 3,474,672 who we reviewed, or about 36 percent, participated in the

¹⁰The six states selected for our Medicaid analysis had eligibility dates from the third quarter of 2012 through the most-recent eligibility fiscal quarter available for each state—at the time of our data analysis—which ranged from the third quarter of 2012 to the fourth quarter of 2014. For our analysis of NLAD and Medicaid data, we only matched against Lifeline subscribers who enrolled prior to the latest Medicaid eligibility data available for each state. Our nationwide SSI eligibility data ranged from October 2012 to December 2014, and each of the five selected states' SNAP data ranged from October 2013 to December 2014. Therefore, it was not necessary to exclude any Lifeline subscribers prior to matching. To ensure a conservative estimate of unconfirmed eligibility, in the event that any of the Lifeline subscribers were only shown as eligible for the month of December 2014, they were nevertheless counted as a match and deemed likely eligible for Lifeline, even though NLAD data were only as of November 2014. For more information about our scope and methodology, see the full report, GAO-17-538.

¹¹When matching NLAD data against each of the qualifying programs that we tested, we used the number of subscribers listed in NLAD as belonging to each program at the state level and matched it to the corresponding state's qualifying program's eligibility database. We took the difference between the subscribers listed as belonging to SNAP, SSI, and Medicaid at the state level in NLAD and our confirmed matches to determine the number of subscribers who could not be confirmed to qualify for the benefit program.

qualifying benefit programs they stated on their Lifeline enrollment applications or were recorded as such by Lifeline providers.¹²

If providers claimed and received reimbursement for each of the 1.2 million subscribers, then the subsidy amount associated with these individuals equals \$11.4 million per month, or \$137 million annually, at the current subsidy rate of \$9.25 per subscriber. Because Lifeline disbursements are based on providers' reimbursement claims, not the number of subscribers a provider has in NLAD, our analysis of NLAD data could not confirm actual disbursements associated with these individuals. Given that our review was limited to those enrolled in SNAP or Medicaid in selected case-study states, and SSI in states that participated in NLAD at the time of our analysis, our data results are likely understated compared to the entire population of Lifeline subscribers. These results indicate that potential improper payments have occurred and have gone undetected. We plan to refer potentially ineligible subscribers identified through our analysis for appropriate action as warranted.

Our undercover testing, as discussed in our May 2017 report, also found that Lifeline may be vulnerable to ineligible subscribers obtaining service and the testing found examples of Lifeline providers being nonresponsive, or providing inaccurate information. To conduct our 21 tests, we contacted 19 separate providers to apply for Lifeline service. We applied using documentation fictitiously stating that we were enrolled in an eligible public-assistance program or met the Lifeline income requirements. We were approved to receive Lifeline services by 12 of the 19 Lifeline providers using fictitious eligibility documentation. We also experienced

¹²For the purpose of our analysis, we considered a subscriber in NLAD to be a likely match and enrolled in SNAP if at least four of the following fields matched between NLAD and SNAP data from each state: subscriber first name; subscriber last name; subscriber date of birth; last four digits of the subscriber's Social Security number (SSN); and an exact address, zip-code, state match. We considered a subscriber listed in NLAD to be a likely match and enrolled in SSI if the subscriber first name, last name, date of birth, and last four digits of the SSN matched exactly with SSI program data. To ensure that our tabulations of unconfirmed eligibility do not overstate potential problems with the data, we counted as a "likely match" for both SNAP and SSI data matching. Specifically, for SNAP and SSI we counted first and last name matches with inexact, but similar, spelling to be a likely match and enrolled in the qualifying programs. Whereas, for Medicaid, we considered a subscriber listed in NLAD as a likely match enrolled in the qualifying program if the date of birth, last four digits of the SSN, and zip code matched exactly with Medicaid data for each state, because the Medicaid data we utilized did not contain first or last name. By not requiring the first or last name as part of the NLAD/Medicaid matching, we may understate the unconfirmed eligibility rate for NLAD subscribers coded as eligible via Medicaid.

instances during our undercover tests where our calls to providers were disconnected, and where Lifeline provider representatives transmitted erroneous information, or were unable to provide assistance on questions about the status of our application. For example, one Lifeline provider told us that our application was not accepted by the company because our signature had eraser marks; however our application had been submitted via an electronic form on the provider's website and was not physically signed. While our tests are illustrative and not representative of all Lifeline providers or applications submitted, these results suggest that Lifeline providers do not always properly verify eligibility and that applicants may potentially encounter similar difficulties when applying for Lifeline benefits. As described above, these challenges might be overcome if FCC establishes a National Verifier, as it plans to do nationwide by the end of 2019, to remove responsibility for verifying eligibility from the providers.

FCC and USAC Have Taken Some Steps to Improve Oversight of Lifeline Providers, but Remaining Gaps Could Allow Noncompliance with Program Rules

FCC and USAC have implemented some mechanisms to enhance oversight of Lifeline providers, as discussed in our May 2017 report, but we found that remaining gaps could allow noncompliance with program rules. For example, in July 2014, FCC took additional measures to combat fraud, waste, and abuse by creating a strike force to investigate violations of USF program rules and laws. According to FCC, the creation of the strike force is part of the agency's commitment to stopping fraud, waste, and abuse and policing the integrity of USF programs and funds. Similarly, in June 2015, FCC adopted a rule requiring Lifeline providers to retain eligibility documentation used to qualify consumers for Lifeline support to improve the auditability and enforcement of FCC rules.

However, we found FCC and USAC have limited oversight of Lifeline provider operations and the internal controls used to manage those operations. The current structure of the program relied throughout 2015 and 2016 on over 2,000 Eligible Telecommunication Carriers (ETC) to provide Lifeline service to eligible beneficiaries. These companies are relied on to not only provide telephone service, but also to create Lifeline applications, train employees and subcontractors, and make eligibility determinations for millions of applicants. USAC's reliance on Lifeline providers to determine eligibility and subsequently submit accurate and factual invoices is a significant risk for allowing potentially improper payments to occur, and under current reporting guidelines these occurrences would likely go undetected and unreported. Federal internal control standards state that management retains responsibility for the performance and processes assigned to service organizations performing operational functions. Consistent with internal control standards, FCC and

USAC would need to understand the extent to which a sample of these internal controls are designed and implemented effectively to ensure these controls are sufficient to address program risks and achieve the program's objectives.

We identified key Lifeline functions for which FCC and USAC had limited visibility. For example, we found instances of Lifeline providers utilizing domestic or foreign-operated call centers for Lifeline enrollment. When we asked FCC officials about Lifeline providers that outsource program functions to call centers, including those overseas, they told us that such information is not tracked by FCC or USAC. With no visibility over these call centers, FCC and USAC do not have a way to verify whether such call centers comply with Lifeline rules. FCC and USAC have limited knowledge about potentially adverse incentives that providers might offer employees to enroll subscribers. For example, some Lifeline providers pay commissions to third-party agents to enroll subscribers, creating a financial incentive to enroll as many subscribers as possible. Companies responsible for distributing Lifeline phones and service that use incentives for employees to enroll subscribers for monetary benefit increase the possibility of fictitious or ineligible individuals being enrolled into Lifeline. Highlighting the extent of the potential risk for companies, in April 2016 FCC announced approximately \$51 million in proposed fines against one Lifeline provider, due to, among other things, its sales agents purposely enrolling tens of thousands of ineligible and duplicate subscribers in Lifeline using shared or improper eligibility documentation.

To test internal controls over employees associated with Lifeline for our May 2017 report, we sought employment with a company that enrolls individuals to Lifeline. We were hired by a company and were allowed to enroll individuals in Lifeline without ever meeting any company representatives, conducting an employment interview, or completing a background check. After we were hired, we completed two fictitious Lifeline applications as an employee of the company, successfully enrolled both of these fictitious subscribers into Lifeline using fabricated eligibility documentation, and received compensation for these enrollments. The results of these tests are illustrative and cannot be generalized to any other Lifeline provider. We plan to refer this company for appropriate action as warranted. As stated above, these challenges might be overcome if FCC establishes a National Verifier, as it plans to do nationwide by the end of 2019, to remove responsibility for verifying eligibility from the providers. In addition, in May 2017, we made two recommendations to help address control weaknesses and related program-integrity risks. Specifically, we recommended that FCC establish

time frames to evaluate compliance plans and develop instructions with criteria for FCC reviewers how to evaluate these plans to meet Lifeline's program goals. We also recommended that FCC develop an enforcement strategy that details what violations lead to penalties and apply this as consistently as possible to all Lifeline providers to ensure consistent enforcement of program violations. FCC generally agreed with these recommendations.

In conclusion, Lifeline's large and diffuse administrative structure creates a complex internal control environment susceptible to significant risk of fraud, waste, and abuse. FCC's and USAC's limited oversight of important aspects of program operations further complicates the control environment—heightening program risk. We are encouraged by FCC's recent steps to address weaknesses we identified, such as the 2016 order establishing a National Verifier, which, if implemented as planned, could further help to address weaknesses in the eligibility-determination process. We also plan to monitor the implementation status of the recommendations we made in May 2017.

Chairman Johnson, Ranking Member McCaskill, and Members of the Committee, this concludes my prepared remarks. I would be happy to answer any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

For further information regarding this testimony, please contact Seto J. Bagdoyan at (202) 512-6722 or bagdoyans@gao.gov. In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this testimony are Dave Bruno (Assistant Director), Scott Clayton (Analyst-in-Charge), and Daniel Silva.

**TESTIMONY OF FCC CHAIRMAN AJIT PAI
BEFORE THE U.S. SENATE COMMITTEE ON
HOMELAND SECURITY & GOVERNMENTAL AFFAIRS**

**“FCC’S LIFELINE PROGRAM:
A CASE STUDY OF GOVERNMENT WASTE AND MISMANAGEMENT”**

SEPTEMBER 14, 2017

Chairman Johnson, Ranking Member McCaskill, and Members of the Committee, thank you for holding this important hearing and inviting me to testify today.

I have often said that my highest priority as Chairman is closing the digital divide—the gap between those who have access to next-generation technologies and those who don’t. The Lifeline program can play a role in our efforts to bring digital opportunity to all Americans. But unfortunately, it continues to be riddled by waste, fraud, and abuse. This is doubly destructive: every dollar wasted comes from the pockets of ratepayers and does nothing to help low-income families actually in need of communications services. The FCC owes it to everyone who contributes to or receives benefits from the Universal Service Fund to make sure the Lifeline program is efficient, effective, and free of waste, fraud, and abuse.

The Government Accountability Office (GAO) report we will discuss today represents a careful review of the program’s mismanagement in recent years. And it confirms for me the serious concerns I have had for some time about waste, fraud, and abuse in the Lifeline program.

Prior to becoming FCC Chairman, I conducted my own investigation of the Lifeline program as a Commissioner in 2016. It spanned several months, encompassed multiple letters to the Universal Service Administrative Company (USAC) requesting detailed information about USAC’s oversight of the Lifeline program, and revealed significant abuses of the program by Lifeline providers. I have attached that correspondence for the Committee’s review. And GAO’s May 2017 report confirmed some of the same issues I identified in my investigation.

First, because the Lifeline program lacks adequate safeguards, it has paid for subscribers who are not eligible to participate, potentially to the tune of hundreds of millions of dollars a year. In its investigation, GAO was unable to confirm whether more than 1.2 million individuals, or 36% of the sample reviewed, participated in the Lifeline-qualifying programs they or their provider claimed during the Lifeline enrollment process. That is, the subscriber was supposedly eligible for Lifeline because of his or her participation in a program like Medicaid, Supplemental Nutrition Assistance Program (SNAP), or Supplemental Security Income (SSI). But when GAO went to confirm this alleged participation in those other programs, it could not. Even worse, GAO noted that this “likely understates” the magnitude of ineligible subscribers receiving benefits.

Second, Lifeline rules only allow one subsidy per household. But loopholes in enforcing the program’s one-per-household rule have allowed providers to enroll hundreds of subscribers at a single address, including one address that was associated with 10,000 separate subscribers. Think about that. One address, getting over \$90,000 per month, and every dime of it paid for by the American people.

Third, for years, a lack of robust verification procedures has allowed providers to claim support for “phantom” and deceased subscribers, as well as to unlawfully claim multiple benefits for yet other subscribers. Phantom subscribers—that is, subscribers who don’t actually exist in real life but still collect a Lifeline benefit—have numbered in the thousands for multiple providers. The FCC’s Office of Inspector General has identified this area as a significant and ongoing source of waste, fraud and abuse. GAO also has identified over 6,000 individuals who were deceased at least one year before their

enrollment or most recent recertification in the program. Similarly, GAO uncovered approximately 5,500 potential cases involving subscribers receiving duplicative benefits from the same provider.

Finally, some Lifeline providers' sales agents' practices continue to be a key driver of inappropriate enrollments in the program. The FCC's Inspector General has determined that the payment structure many Lifeline resellers use to compensate sales agents can incentivize those agents to commit fraud. This is because agents are often paid based on the number of new subscribers they sign up. Not surprisingly, a number of agents are less than scrupulous about who they enroll.

In light of these serious problems, I have directed USAC to implement aggressive administrative changes to correct the problems that GAO, my office, and the FCC's Inspector General have identified.

Specifically, as set forth in a July 11th letter that I sent to USAC's Acting CEO, Vickie Robinson, I have asked USAC to take immediate action to strengthen its administrative processes and the National Lifeline Accountability Database (NLAD). Among other measures, I have asked USAC to review addresses associated with large numbers of subscribers. It should also prevent providers from claiming subsidies for more than their total number of enrolled subscribers. It should block benefits for deceased subscribers and actively detect and remove duplicative benefits found for the same household. To hold sales agents accountable, USAC should require them to register with USAC before using the Lifeline enrollment systems. In addition to these immediate efforts, in early 2018 the program will only make a payment for a subscriber if USAC's systems show the subscriber has passed all checks in the NLAD. This will help prevent providers from claiming support for phantom subscribers.

Any improper payments that USAC identifies in these processes will be reported to the FCC's Enforcement Bureau and Office of the Inspector General for administrative, civil, or criminal action, as appropriate. Moreover, once GAO gives us the subscriber data underlying its report of ineligible, duplicative, and deceased subscribers, we will act quickly to ensure that those subscribers are no longer enrolled in the program, attempt to reclaim any improper payments, and review enrollments by eligible telecommunications carriers (ETCs) associated with those fraudulent claims.

To combat eligibility-related waste, fraud and abuse, the FCC will launch the Lifeline National Eligibility Verifier in at least six states this year—exceeding the benchmark set last year. The National Verifier will take on the responsibility of determining subscriber eligibility, making it more difficult for those who would defraud the program from abusing the eligibility process to claim ineligible or duplicate subscribers. The National Verifier will also use federal and state data sources to automate eligibility checks, which both improves accuracy and minimizes administrative expenses.

And as I have said before, the FCC also must support state commissions' roles in policing against fraud and abuse committed by providers. When so much work remains to be done, we cannot afford to stand in the way of our state partners that are on the ground and ready to fight program abuse. (It bears mentioning, too, that Congress explicitly gave the states this function in the Communications Act.)

Finally, to fulfill its obligation to be a responsible steward of the Universal Service Fund, the FCC must evaluate the efficacy of the aforementioned efforts and consider whether further programmatic changes are necessary to ensure that Lifeline funds are efficiently and properly directed to those families who need it most. The challenges that lay ahead of the Commission are significant. But it is imperative that we learn from past mistakes and set the Lifeline program on the proper course.

* * *

One last note. The GAO report also raised concerns regarding universal service funds being held in a private bank outside of the United States Treasury. The FCC is actively working with the Treasury Department and USAC to implement a project plan to move USF funds to the Treasury as soon as possible in recognition of the fact that these are federal funds. This move will enhance controls over USF operations by bringing the USF in line with standard Federal payment and collection processes.

Thank you once again for holding this hearing and allowing me to testify this morning. I look forward to answering your questions, listening to your views, and continuing to work with you and your staff to improve the Lifeline program.



FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, DC 20554

April 18, 2016

Mr. Chris Henderson
Chief Executive Officer
Universal Service Administrative Company
2000 L Street NW, Suite 200
Washington, DC 20036

Dear Mr. Henderson,

I seek your aid in combating the waste, fraud, and abuse that has riddled the Universal Service Fund's Lifeline program since wireless resellers began participating in this program in earnest in 2009.

The Commission's recent investigation of Total Call Mobile revealed much about the dubious practices of the industry. We learned, for example, how Total Call Mobile's sales agents repeatedly registered duplicate subscribers to the addresses of local homeless shelters and used fake Social Security numbers to register duplicate subscribers—all resulting in USAC's finding 32,498 enrolled duplicates. We learned how Total Call Mobile's sales agents repeatedly overrode the safeguards of the National Lifeline Accountability Database (NLAD)—abuse so far-reaching that at one point, 99.8% of Total Call Mobile's new subscribers were the result of overrides. And we learned how Total Call Mobile heavily relied on Supplemental Nutrition Assistance Program (SNAP) cards to register subscribers—in large part because that program can so easily be abused.

Disturbingly, we also learned that Total Call Mobile was not alone. Total Call Mobile's sales agents testified that they worked side-by-side with the sales agents of other Lifeline wireless resellers, like [REDACTED] and [REDACTED]. They also testified that they learned how to exploit the program from sales agents and supervisors who worked at various points for other Lifeline wireless resellers, like [REDACTED] and [REDACTED].

I hope you agree that we must be vigilant in stopping abuse of the Universal Service Fund. American taxpayers deserve to know that the money they contribute each month to the Fund is not wasted or put to fraudulent use.

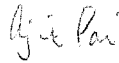
Therefore, I request that USAC provide the following information to my office.

1. For each of the four Lifeline wireless resellers named by Total Call Mobile sales agents (i.e., [REDACTED], [REDACTED], [REDACTED], and [REDACTED]):
 - a. A description of any investigations, audits, or reviews that USAC has conducted on such companies from October 2014 to the present, along with any reports drafted or issued by USAC or, in the case of no such report, a summary of USAC's findings.
 - b. If USAC informed any such carrier of duplicate enrollments, the number of duplicate enrollments involved and the date(s) on which the carrier de-enrolled them.

- c. For each study area of each company from the period of October 2014 to the present, a table showing how many subscribers enrolled each month; how many subscribers were newly enrolled or transfers from other Lifeline carriers; how many such subscribers were accrued as a result of an override of the NLAD's safeguards; and among subscriber-overrides, how many were attributable to the third-party-independent-verification check, the postal-address check, and the independent-economic-unit check.
 - d. To the extent USAC knows, how many subscribers relied on SNAP cards for eligibility verification and how many of such subscribers used temporary or blank SNAP cards for such verification.
2. A list of any and all Lifeline wireless resellers that overrode the safeguards of the NLAD more than 500 times between October 2014 and the present, noting the number and type of such overrides as well as the percentage of new subscribers that were enrolled through the use of such overrides, reported on a monthly basis by study area.
 3. An explanation of USAC's plan for reviewing, auditing, and investigating eligibility documentation retained by Lifeline wireless resellers since February 17, 2016 (the day that requirement took effect), as well as the results of any such review, audit, or investigation.

I appreciate USAC's continued work to protect the American taxpayer and safeguard the Universal Service Fund. Given the many millions in taxpayer funds that have already gone to waste, I ask that you respond with the requested information by May 2, 2016. If you have any questions, please feel free to contact Nicholas Degani in my office at (202) 418-2000.

Sincerely,



Ajit Pai
Commissioner
Federal Communications Commission



Confidential, Not for Public Inspection for Disclosure

May 2, 2016

The Honorable Ajit Pai
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Dear Commissioner Pai:

Thank you for your letter concerning the Universal Service Fund's (USF) Lifeline Program. The Universal Service Administrative Company (USAC) is dedicated to working with the Federal Communications Commission (FCC) to combat waste, fraud and abuse in the USF programs. We welcome this opportunity to respond to your questions and share with you some of the efforts USAC has undertaken to reduce duplicate subscribers in the Lifeline Program. As clearly articulated in your letter, the ability to override the third-party identity verification (TPIV) in the National Lifeline Accountability Database (NLAD) created the ability to misuse the process, which is why we supported the elimination of that override ability as of February 2, 2015. USAC has also strengthened algorithms in the NLAD to improve the detection and prevention of duplicate enrollments and modified our audit programs to better identify entities with a higher likelihood of non-compliance, including the four carriers named in your letter. We have provided responses to your specific questions below along with several attachments detailing the data and information you requested.

1. *For each of the four Lifeline wireless resellers named by Total Call Mobile sales agents (i.e., [REDACTED]):*
 - a. *A description of any investigations, audits, or reviews that USAC had conducted on such companies from October 2014 to the present, along with any reports drafted or issued by USAC or, in the case of no such report, a summary of USAC's findings.*

As part of the USAC Internal Audit Division's (IAD) Beneficiary and Contributor Audit Program (BCAP), we have completed audits of [REDACTED] and [REDACTED]. The final audit reports for those two carriers are attached. In addition, USAC is currently conducting BCAP audits of [REDACTED]. USAC has not conducted any BCAP audits of [REDACTED] during the applicable period.

Commissioner Pai
May 2, 2016
Page 2 of 7

In addition to the BCAP audits, USAC conducts Payment Quality Assurance (PQA) reviews to determine if there were any improper payments to program beneficiaries as required by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) (Pub. L. No. 112-248). Specifically, USAC determines if specific payments made to select beneficiaries in the Lifeline Program and other support mechanisms were made in accordance with FCC rules and requirements, and reports the results to the FCC. As part of this process, the PQA review determines if the carrier claimed any duplicates in its FCC Form 497 filing. A summary of USAC's PQA results for the four named carriers is provided in response to Question 1(b) below.

Beyond the BCAP audits and PQA reviews, and pursuant to the Commission's *2012 Lifeline Reform Order*, Lifeline Program service providers receiving \$5 million or more in Lifeline annual disbursements are required to hire an independent auditing firm to conduct a review of their overall compliance with the Lifeline Program rules.¹ In response to that requirement, [REDACTED] submitted Biennial Audit Reports to USAC and the FCC for the calendar year ending December 31, 2013. The three reports are attached for your reference.

USAC also performed an internal review of all subscriber records in NLAD in early 2015. Duplicate subscriber records were identified during that review, and USAC initiated a process to de-enroll those subscribers, which was completed in May 2015. As part of this internal review, additional system safeguards were implemented in March 2015 to strengthen the system controls and prevent the entry of duplicate subscribers into NLAD. The duplicate subscriber resolution process is detailed below, and on USAC's website.²

Duplicate Resolution Processes

- Automatic de-enrollment: Subscribers are identified as duplicates in NLAD based on certain matching identification information. In some cases, one of the records will pass the third-party identity verification (TPIV) with no issues, while other records will not. In these cases, the records with failed TPIV results were automatically de-enrolled with their respective carriers, and the one successful identity validated was retained. This de-enrollment took place in NLAD, and USAC provided reports to carriers of these de-enrollments so that they could update their own systems within five business days.
- De-enrollment by consumer choice: If the above situation did not apply, consumers were contacted by letter and given 35 days to select one of their multiple carriers to retain the benefit, effectively de-enrolling them from the other carriers in NLAD. A default carrier was selected, and in the event no response was received, the default

¹ *Lifeline and Link Up Reform and Modernization, Lifeline and Link Up, Federal-State Joint Board in Universal Service, Advancing Broadband Availability Through Digital Literacy Training*, WC Docket No. 11-42, et al., Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656, 6782-86, ¶¶ 291-97 (2012) (*2012 Lifeline Reform Order*).

² USAC, National Lifeline Accountability Database (NLAD), Production Duplicate Subscriber Resolution, available at <http://www.usac.org/li/tools/nlad/duplicate-resolution/production-duplicate-subscriber-resolution.aspx>.

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May 2, 2016
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carrier would retain the consumer. USAC provided reports to carriers of these de-enrollments so that they could update their own systems within five business days.

b. If USAC informed any such carrier of duplicate enrollments, the number of duplicate enrollments involved and the date(s) on which the carrier de-enrolled them.

USAC uses multiple levels of analysis, review, and data analytics to identify and remove duplicate Lifeline subscribers and has taken additional actions to prevent the enrollment of duplicates.

The PQA review process is one method used to identify and notify carriers of Lifeline duplicate subscribers. As part of this process, USAC requests and reviews a copy of the carrier's subscriber list used to support their FCC Form 497 filing for Lifeline Program disbursements. For each of the four named carriers, the PQA review identified the following number of duplicates in those subscriber lists for disbursements made from October 2014 to December 2014.

Carrier	Case No.	Total Subscribers	Number of Duplicates ³

USAC is currently conducting its PQA review of disbursements issued in 2015, which remains open at this time.

After the completion of a PQA case and notification to the carrier, USAC confirms that the carrier files a FCC Form 497 with a downward revision for the applicable data month. USAC is currently developing a process to ensure that the carrier also de-enrolls the subscriber

³ During this time period, Telrite Corporation – WV, Case No. LI-2014-10-Case-251 and TracFone Wireless, Inc. – ME, Case No. LI-2014-11-Case-284 did not identify any duplicate subscribers, but in both cases the review did identify missing or incomplete subscriber data.

⁴ USAC notes that TracFone filed an appeal of the findings in Cases 279, 256 and 282, which remains pending with USAC.

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as required by the FCC's rules and does not include the duplicate subscriber on future support filings.⁵

In addition to the PQA review, the Lifeline Program team is constantly reviewing and analyzing the subscriber information in NLAD for anomalies, duplicates, or other errors that may signal improper payments or potentially fraudulent behavior. As set forth above in the description of the Duplicate Resolution Process, for any duplicates identified in NLAD, USAC notified each carrier of the duplicate enrollments that were identified as a result of USAC's internal review of records from February 2015 to May 2015, as detailed in the summary table below. A detailed listing of these duplicates, including the date the duplicate subscriber was de-enrolled from NLAD, is provided as an attachment.

Carrier	Total Subscribers (From Feb 2015)	Total Duplicates De-Enrolled	De-Enroll %
Total	8,805,405	373,911	4%

- c. *For each study area of each company from the period of October 2014 to the present, a table showing how many subscribers enrolled each month; how many subscribers were newly enrolled or transfers from other Lifeline carriers; how many such subscribers were accrued as a result of an override of the NLAD's safeguards; and among subscriber-overrides, how many were attributable to the independent-economic-unit check.*

Based on data in the NLAD system, USAC developed the attached report, "Enrollment Override Analysis by Company," which provides the requested data. The attached chart includes override information for October 2014 through February 2015 when the self-help override feature was removed from NLAD. As such, as of February 2, 2015, carriers can no longer directly perform an override in NLAD. With the elimination of this function, when a carrier receives a TPIV failure notification in NLAD, they must now enter a TPIV resolution ticket that is reviewed by USAC staff. The resolution request must list the type of document used to verify the subscriber's identity, the agent's name or identification and a certification statement, made under penalty of perjury. The exception will not be processed until USAC approves the request.⁶ As a result of this change in the resolution process, overrides have decreased from 34% of total enrollments to only 4% of enrollments.

⁵ See 47 C.F.R. § 54.405(e)(2).

⁶ USAC, National Lifeline Accountability Database (NLAD), Third Party Identity Verification (TPIV) Failure Resolution, available at <http://www.usac.org/ii/tools/nlad/dispute-resolution/tpiv-failure-dr.aspx>.

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During the time period the self-help override function was available in NLAD, TPIV overrides made up 99.9% of all overrides, while overrides of address errors and subscriber age limits made up the remaining 0.1% of the overrides. For the four named companies, over 99% of the overrides used by these companies were TPIV overrides. None of the four named companies entered an override for an address error or subscriber age limitation.

- d. *To the extent USAC knows, how many subscribers relied on [Supplemental Nutrition Assistance Program] SNAP cards for eligibility verification and how many of such subscribers used temporary or blank SNAP cards for such verification.*

The attached report, "SNAP Enrollment," is based on data reported by the carriers in the NLAD system. Please note that NLAD requires carriers to select the type of eligibility program from a drop-down menu, which lists SNAP as one of several eligible programs. As such, the attached list includes all subscribers for October 2014 through present for which the carrier selected the SNAP program, but the list does not specify the exact type of documentation reviewed by the carrier.

2. *A list of any and all Lifeline wireless resellers that overrode the safeguards of the NLAD more than 500 times between October 2014 and the present, noting the number and type of such overrides as well as the percentage of new subscribers that were enrolled through the use of such overrides, reported on a monthly basis by study area.*

Using the NLAD system, USAC provides the attached report, "Lifeline Wireless Company Override Usage," which provides the detailed data requested of all Lifeline wireless resellers who used the override more than 500 times from October 2014 to February 2015. As noted above, the self-help override was eliminated on February 2, 2015 and replaced with a new resolution process. In addition, USAC added new system safeguards to NLAD in March 2015, which strengthened controls and further helped to prevent the enrollment of duplicates into the NLAD system.

3. *An explanation of USAC's plan for reviewing, auditing, and investigating eligibility documentation retained by Lifeline wireless resellers since February 17, 2016 (the day that requirement took effect), as well as the results of any such review, audit, or investigation.*

Beginning with Lifeline Program audits announced in 2016, USAC's IAD, in consultation with the FCC Office of Managing Director and the Wireline Competition Bureau, jointly developed an audit program that is designed to focus audit resources on entities meeting various risk factors indicating potential noncompliance with FCC rules. This new plan was built on the following key principles:

- Improved ability to detect and deter non-compliance;
- Reduced burden on lower risk applicants;

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- Use process to support or enhance compliance; and
- Focused approach to audit selection and procedures.

Data analytics were used to identify areas of focus and the entities to audit. The teams collectively used eighteen risk factors to perform the data analysis and the risk factors centered on the following themes:

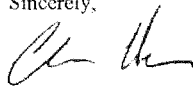
- [REDACTED]
- [REDACTED]

The four carriers listed in your letter were identified in our data analysis and [REDACTED]

For audit periods starting February 2016 and later, USAC will select a sample of Lifeline Program subscribers with start dates on or after February 17, 2016 based on the sampling guidelines established by the Government Accountability Office. For each of the selected subscribers, USAC will request that the audited carrier provide a copy of the eligibility documentation it reviewed to confirm the subscriber's eligibility. USAC will then examine the documentation to confirm it relates to the selected subscriber, was valid during the audited time period, and is an acceptable form of documentation per the FCC's rules.⁷ USAC has not yet commenced audits of this time period.

USAC remains committed to ensuring the Universal Service Fund is protected from waste, fraud, and abuse and looks forward to continuing to work with the FCC to ensure that contributions from consumers are disbursed in accordance with FCC rules and regulations. Please let us know if you need any additional information or have any questions about the responses provided.

Sincerely,



Chris Henderson
Chief Executive Officer
Universal Service Administrative Company

Enclosures

⁷ See 47 C.F.R. §§ 54.410(b)(1)(B) and (c)(1)(B).

Index of Attachments

Attachment 1 – BCAP Audit Report for [REDACTED]
[REDACTED]

Attachment 2 – [REDACTED], Audit Report No. [REDACTED]

Attachment 3 – [REDACTED] Lifeline Biennial Audit Report

Attachment 4 – [REDACTED] Lifeline Biennial Audit Report

Attachment 5 – [REDACTED] Lifeline Biennial Audit Report

Attachment 6 – NLAD Duplicates with De-enrollment Date (Confidential)

Attachment 7 – Enrollment Override Analysis by Company (Confidential)

Attachment 8 – SNAP Enrollment (Confidential)

Attachment 9 – Lifeline Wireless Company Override Usage (Confidential)

BCAP Audit Reports
Attachments Redacted in Their Entirety

Biennial Audit Reports
Attachments Redacted in Their Entirety

**Attachment 6 – NLAD Duplicates with
De-enrollment Date (Confidential)
Attachment Redacted in its Entirety**

**Attachment 7 – Enrollment Override Analysis by
Company (Confidential)**
Attachment Redacted in its Entirety

Attachment 8 – SNAP Enrollment (Confidential)
Attachment Redacted in its Entirety

**Attachment 9 – Lifeline Wireless Company
Override Usage (Confidential)
Attachment Redacted in its Entirety**



Confidential, Not for Public Inspection for Disclosure

May 18, 2016

The Honorable Ajit Pai
 Commissioner
 Federal Communications Commission
 445 12th Street, S.W.
 Washington, DC 20554

Dear Commissioner Pai:

Your office contacted the Universal Service Administrative Company (USAC) with several follow-up questions and requests for supplemental data in response to our May 2, 2016 letter. The requested information related to USAC's audits of specific carriers and its 2016 audit plan are provided below.

First, as noted in the May 2, 2016 letter, USAC is conducting audits of [REDACTED]. The [REDACTED] audit is currently underway, and we anticipate it will be completed in time to present at the [REDACTED] USAC Board of Director's meeting. For clarification, we note that the [REDACTED] and [REDACTED] audits are being conducted by external auditors under the direction of USAC's Internal Audit Division (IAD) as part of our external audit program developed during the 2014-2015 audit plan years, and we expect those reports to be completed in time to present at the [REDACTED] USAC Board of Director's meeting.

In addition to the previously referenced audits, USAC will also be conducting new audits of all four carriers named in your April 18, 2016 letter as part of its 2016 risk-based audit plan. Specifically, USAC will conduct audits of [REDACTED]. We anticipate those audits will be announced in July 2016. As noted above, IAD is currently conducting an audit of [REDACTED] as part of the requirement to audit first year Lifeline service providers.¹

During our conversation with your office, USAC described its risk-based audit program, which is designed to focus audit resources on entities with a heightened risk of noncompliance with FCC rules. Specifically, USAC collaborated with the FCC Office of Managing Director and FCC Wireline Competition Bureau to develop the risk factors for the Lifeline program. [REDACTED]

¹ See *Lifeline and Link Up Reform and Modernization et al.*, WC Docket No. 11-42 *et al.*, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Red 6656, 6781-82 (2012).

If this document is requested pursuant to a Freedom of Information Act, 5 U.S.C. § 552 (FOIA) filing, USAC would advise the Commission that disclosure of this material should be withheld pursuant to FOIA Exemptions 4, 5, and/or 7(e).

USAC is working diligently to gather and prepare the additional data requested by your office and expects to provide it by Wednesday, May 25. Please let us know if you need any additional information or have any questions about the responses provided.

Ch K

Chris Henderson
Chief Executive Officer
Universal Service Administrative Company

Enclosure

Lifeline Program Risk Factors
Attachment A Redacted in its Entirety



Confidential, Not for Public Inspection for Disclosure

May 25, 2016

The Honorable Ajit Pai
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Dear Commissioner Pai:

Your office contacted the Universal Service Administrative Company (USAC) with several follow-up questions and requests for supplemental data in response to our May 2, 2016 letter. The requested information and supplemental response to Questions 1(c)-(d) and 2 are provided below.

1. *For each of the four Lifeline wireless resellers named by Total Call Mobile sales agents (i.e., [REDACTED], and [REDACTED]:*
 - c. *For each study area of each company from the period of October 2014 to the present, a table showing how many subscribers enrolled each month; how many subscribers were newly enrolled or transfers from other Lifeline carriers; how many such subscribers were accrued as a result of an override of the [National Lifeline Accountability Database] NLAD's safeguards; and among subscribers-overrides, how many were attributable to the independent-economic-unit check.*

On May 2, 2016, USAC provided the "Enrollment Override Analysis by Company," labeled as Attachment 7, which provided the third-party identity verification (TPIV) override data for the four named carriers from October 2014 through February 2015 when the feature was deactivated. In response to a request from your office, USAC developed the attached supplemental report, "Enrollment Override Analysis by Company – Supplement," which includes all overrides or exemption types allowed by NLAD. Specifically, NLAD includes or has included: (1) flags for addresses (rural and tribal) and independent-economic-household (IEH) certifications; (2) TPIV override information (until February 2, 2015); and (3) requests for resolution of a TPIV failure process that results in manual review by USAC staff (after February 2, 2015).¹ All of these various override or exemption functions are reflected in the attached chart, which was also extended to cover the time period of October 2014 through April 30, 2016.

¹ After February 2, 2015, USAC added a TPIV resolution ticket process into NLAD, which allows carriers to ask USAC to approve an override of the TPIV error based on information and certification provided by the carrier to USAC through the ticket resolution process.

Commissioner Pai
May 25, 2016
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USAC notes that the inclusion of the rural, tribal and IEH flags into NLAD was contemplated by the Commission in the *2012 Lifeline Reform Order*. With regard to the two address related flags (rural and tribal), the Commission stated that “the database [NLAD] and identification verification process must be able to accommodate consumer addresses that are not recognized by the U.S. Postal Service (e.g., residences on Tribal lands).”² The IEH flag was included in NLAD to allow carriers to identify subscribers who qualified as an independent economic household under the Commissions’ rules.³ The Commission noted that “it is preferable to implement procedures to enable applicants to demonstrate at the outset that any other Lifeline recipients residing at their residential address are part of a separate household.”⁴

- d. *To the extent USAC knows, how many subscribers relied on [Supplemental Nutrition Assistance Program] SNAP cards for eligibility verification and how many of such subscribers used temporary or blank SNAP cards for such verification.*

On May 2, 2016, USAC also provided the “SNAP Enrollment” chart, identified as Attachment 8, which listed the Lifeline subscribers for October 2014 through present for which the carrier selected the SNAP program. The attached supplemental chart, “SNAP Enrollment – Supplement,” provides the requested information through April 30, 2016 and adds the state location information for each study area code (SAC).

2. *A list of any and all Lifeline wireless resellers that overrode the safeguards of the NLAD more than 500 times between October 2014 and the present, noting the number and type of such overrides as well as the percentage of new subscribers that were enrolled through the use of such overrides, reported on a monthly basis by study area.*

USAC also previously provided the “Lifeline Wireless Company Override Usage” chart, identified as Attachment 9, which detailed data for all Lifeline wireless resellers who used the TPIV override more than 500 times from October 2014 to February 2015 when that override function was disabled. The attached supplemental chart, “Lifeline Wireless Company Override Usage – Supplement,” provides the requested TPIV override information from February 2015 to April 2016 when it was provided as a ticket resolution process and we added additional information about the use of the flags for rural, tribal and IEH.

² See *Lifeline and Link Up Reform and Modernization et al.*, WC Docket No. 11-42 *et al.*, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Red 6656, para. 201 (2012) (*2012 Lifeline Reform Order*).

³ See generally 47 C.F.R. § 54.400(h).

⁴ *2012 Lifeline Reform Order*, at para. 77.

Commissioner Pai
May 25, 2016
Page 3

Please let us know if you need any additional information or have any questions about the responses provided.

Sincerely,

A handwritten signature in black ink, appearing to read "CH Henderson", written over a horizontal line.

Chris Henderson
Chief Executive Officer
Universal Service Administrative Company

Enclosures

List of Supplemental Attachments

Attachment 7B - Enrollment Override Analysis by Company – Supplement (Confidential)

Attachment 8B - SNAP Enrollment – Supplement (Confidential)

Attachment 9B - Lifeline Wireless Company Override Usage – Supplement (Confidential)

**Attachment 7B – Enrollment Override Analysis
by Company – Supplement (Confidential)
Attachment Redacted in its Entirety**

**Attachment 8B – SNAP Enrollment –
Supplement (Confidential)
Attachment Redacted in its Entirety**

**Attachment 9B – Lifeline Wireless Company
Override Usage – Supplement (Confidential)
Attachment Redacted in its Entirety**



Ajit Pai
Commissioner

FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, DC 20554

May 31, 2016

Mr. Chris Henderson
Chief Executive Officer
Universal Service Administrative Company
2000 L Street NW, Suite 200
Washington, DC 20036

Dear Mr. Henderson,

Thank you very much for your letters dated May 2, May 18, and May 25 regarding the waste, fraud, and abuse that has riddled the Universal Service Fund's Lifeline program since wireless resellers began participating in this program in earnest in 2009. I appreciate your responsiveness.

My last letter to you explained how the Commission's recent investigation of Total Call Mobile revealed apparent holes in the federal safeguards that are supposed to protect taxpayer funds. For example, the National Lifeline Accountability Database (NLAD) is intended to verify a person's identity and address, among other things, before deeming that person eligible for Lifeline support. Identity verification is done by a third party, which reviews a person's first and last name, date of birth, and the last four digits of his Social Security number. But the FCC learned how Total Call Mobile's agents apparently overrode these third-party identity verification (TPIV) safeguards of the NLAD for 99.8% of its new subscribers in the last quarter of 2014.

Your responses have confirmed that Total Call Mobile was not alone. Three of the companies identified by Total Call Mobile's agents indiscriminately overrode the TPIV safeguards between October 2014 and February 2015. [REDACTED] overrode the safeguards for 98.5% of its new subscribers; [REDACTED] overrode the safeguards for 96.2% of its new subscribers; and [REDACTED] overrode the safeguards for 96% of its new subscribers. Furthermore, eight other wireless resellers overrode federal safeguards more than half of the time between October 2014 and February 2015: [REDACTED] (99.5%), [REDACTED] (99.4%), [REDACTED] (97.6%), [REDACTED] (95.3%), [REDACTED] (92.7%), [REDACTED] (89.4%), [REDACTED] (74.2%), and [REDACTED] (50.6%).

The aggregate numbers for just these five months of enrollment are staggering. Roughly one third of the 2.5 million Lifeline subscribers enrolled by wireless resellers, or 821,482 subscribers, were enrolled using a TPIV override. And, even setting aside Total Call Mobile, the other 11 wireless resellers mentioned above were responsible for 616,937 of those enrollments. That's outrageous.

I commend USAC for changing the TPIV override process on February 2, 2015, to stem this widespread abuse. But I remain concerned that existing safeguards still may let unscrupulous carriers exploit the program. As explained in your letter and on USAC's website,¹ USAC staff still does not review any document that verifies a person's identity before authorizing a TPIV override (now called a "TPIV dispute resolution"). Instead, staff only review a certification from the carrier that the requisite documents are in order. In other words, the integrity of the process relies on the integrity of the carriers—the only ones who know if a subscriber's identity is legitimate.

¹ USAC, Third Party Identity Verification (TPIV) Failure Resolution, <http://www.usac.org/li/tools/nlad/dispute-resolution/tpiv-failure-dr.aspx>.

277,599 subscribers have been enrolled through the new TPIV process, with some wireless resellers relying on that process much more heavily than others. Six of the wireless resellers identified above have relied on the new TPIV override process more than a 1,000 times: [REDACTED] (48,908 overrides), [REDACTED] (20,656), [REDACTED] (10,817), [REDACTED] (5,010), [REDACTED] (2,449), and [REDACTED] (1,307). Four other wireless resellers— [REDACTED] (32,052), [REDACTED] (31,628), [REDACTED] (17,540), and [REDACTED] (3,649)—have also frequently overridden these federal safeguards.

That's not all. Although the NLAD is also supposed to verify a person's address, it allows carriers to override that check with the press of a button. As USAC's website explains,² staff does not review any document that verifies a subscriber's address before authorizing an address override. Instead, if a carrier indicates that an enrollee's address is in a rural or tribal area and thus is not verifiable by the United States Postal Service, the override is automatically granted. As a result, here too the integrity of the process still depends on the integrity of the carriers—the only ones who know if a subscriber's address is legitimate.

494,921 subscribers have been enrolled through the address override process since October 2014, with some wireless resellers relying on that process much more heavily than others. Fourteen of the wireless resellers identified above have relied on the address override process more than 1,000 times: [REDACTED] (158,336 overrides), [REDACTED] (85,101), [REDACTED] (70,425), [REDACTED] (41,779), [REDACTED] (30,761), [REDACTED] (15,779), [REDACTED] (13,881), [REDACTED] (5,659), [REDACTED] (5,463), [REDACTED] (5,262), [REDACTED] (3,463), [REDACTED] (3,110), [REDACTED] (2,351), and [REDACTED] (1,990). One additional wireless reseller— [REDACTED] (8,880)—has also frequently overridden these federal safeguards.

There is apparently much work to be done before American taxpayers can know that the money they contribute each month to the Fund is not wasted or put to fraudulent use. In our continued effort to investigate and combat the waste, fraud, and abuse that has plagued the Lifeline program, I respectfully request that you provide the following information to my office:

1. Your responses highlight 13 wireless resellers that have frequently overridden federal safeguards and were not identified in my original letter (*i.e.*, [REDACTED]). For each of these wireless resellers, please provide:
 - a. A description of any investigations, audits, or reviews that USAC has conducted on such companies from October 2014 to the present, along with any such reports drafted or issued by USAC or, in the case of no such report, a summary of USAC's findings.
 - b. If USAC informed any such carrier of duplicate enrollments, the number of duplicate enrollments involved and the date(s) on which the carrier de-enrolled them.
 - c. To the extent USAC knows, how many subscribers for each carrier relied on Supplemental Nutrition Assistance Program (SNAP) cards for eligibility verification and how many of such subscribers used temporary or blank SNAP cards for such verification.
2. Please explain the rationale and the process USAC used to establish the current TPIV override process (now called the TPIV dispute resolution process). Specifically, please

² USAC, Address Resolution, <http://www.usac.org/li/tools/nlad/dispute-resolution/address-resolution.aspx>.

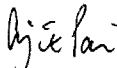
explain why staff do not review any documents identifying a person before authorizing a TPIV override.

3. Please describe any investigations, audits, or reviews that USAC has conducted from October 2014 to the present to verify that subscribers enrolled through either the previous or the current TPIV override process did in fact provide proper documentation to establish their identities. Please include any such reports drafted or issued by USAC or, in the case of no such report, a summary of USAC's findings.
4. Please explain the rationale and the process USAC used to establish the current address override process. Specifically, please explain why staff do not review any documents establishing a person's address before authorizing an address override.
5. Please describe any investigations, audits, or reviews that USAC has conducted from October 2014 to the present to verify that subscribers enrolled with an address override did in fact provide proper documentation to establish their addresses. Please include any such reports drafted or issued by USAC or, in the case of no such report, a summary of USAC's findings.
6. In your May 18 letter, you explained that USAC has the ability to compare the number of subscribers in NLAD with the number of subscribers reported on the Form 497 on a case-by-case basis. I am interested in comparing those numbers on a monthly basis for each of the 16 identified wireless resellers, and my staff has identified a sample state for each one to make this inquiry more tractable. For each month from October 2014 to the present, please provide the number of subscribers in the NLAD as well as the number of subscribers reported on relevant Forms 497 for:

- | | |
|-------------------------------|------------------------------------|
| a. [REDACTED] in Ohio, | i. [REDACTED] in Oklahoma, |
| b. [REDACTED] in Michigan, | j. [REDACTED] in Pennsylvania, |
| c. [REDACTED] in Georgia, | k. [REDACTED] in New York, |
| d. [REDACTED] in Oklahoma, | l. [REDACTED] in Maryland, |
| e. [REDACTED] in Puerto Rico, | m. [REDACTED] in Kansas, |
| f. [REDACTED] in Minnesota, | n. [REDACTED] in Kentucky, |
| g. [REDACTED] in Hawaii, | o. [REDACTED] in Rhode Island, and |
| h. [REDACTED] in Oklahoma, | p. [REDACTED] in Arkansas. |

Again, I appreciate USAC's continued work to protect the American taxpayer and safeguard the Universal Service Fund. Given the many millions in taxpayer funds already lost to waste, fraud, and abuse through the Lifeline program, I ask that you respond with the requested information by June 14, 2016. If you have any questions, please feel free to contact Nicholas Degani in my office at (202) 418-2000.

Sincerely,



Ajit Pai
Commissioner
Federal Communications Commission



Ajit Pai
Commissioner

FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, DC 20554

June 8, 2016

Mr. Chris Henderson
Chief Executive Officer
Universal Service Administrative Company
2000 L Street NW, Suite 200
Washington, DC 20036

Dear Mr. Henderson,

Thank you again for your May 25 letter, which contained detailed data on how wireless resellers have used the National Lifeline Accountability Database (NLAD). My staff has concluded further analysis of that data, and I am now concerned that abuse of the Universal Service Fund's Lifeline program is more widespread than I first thought.

Before 2012, it was well known that duplicate subscribers (that is, individuals getting multiple subsidies) plagued the Lifeline program. In the *2012 Lifeline Reform Order*, the Commission codified the one-per-household rule, which prohibits more than one Lifeline subscription from going to a single household. To curb the problem of duplicate subscriptions and enforce the one-per-household rule, the FCC established the NLAD. The NLAD is designed to help carriers identify and resolve duplicate claims for Lifeline service and prevent future duplicates from enrolling.

Although the NLAD rejects multiple subscribers at the same address, the FCC also instructed USAC to "implement procedures to enable applicants to demonstrate at the outset that any other Lifeline recipients residing at their residential address are part of a separate household." USAC did so by allowing carriers to override NLAD's rejection of an applicant with the same address as another subscriber. As USAC's website explains, to carry out an independent economic household (IEH) override (as USAC calls it), an applicant must merely check a box on a form and need not provide any supporting documentation.¹

Unfortunately, this well-intentioned exception to the override process appears to be undermining the one-per-household rule. The NLAD is not preventing a large number of duplicate subscribers from claiming Lifeline subsidies.

We saw in the Total Call Mobile case how unscrupulous carriers could regularly register duplicate subscribers by fraudulently using the address of a local homeless shelter, altering a person's name, and using fake Social Security numbers to evade detection. As a result, USAC had to de-enroll 32,498 duplicates from Total Call Mobile's rolls.

But your May 25 letter reveals an even greater problem. Specifically, USAC's data reveal that carriers enrolled 4,291,647 subscribers between October 2014 and April 2016 using the IEH override process. That's more than 35.3% of all subscribers enrolled in NLAD-participating states

¹ USAC, NLAD FAQ, <http://www.usac.org/li/about/faqs/faq-nlad.aspx> (June 8, 2016) ("Carriers will receive [a 'Duplicate Address'] error message if another subscriber is currently claiming this address in NLAD. To resolve this error message, collect a Lifeline Household Worksheet from the subscriber. In the 'Subscriber Eligibility Information' section on the 'Enroll Subscriber' page, select 'Yes' for 'Independent Economic Household,' enter the date in 'IEH Certification Date,' then proceed with enrollment.").

during that period. Indeed, that's more people than live in the State of Oregon. And the price to the taxpayer is steep—just one year of service for these apparent duplicates costs taxpayers \$476 million.

It is alarming that over one-third of subscribers—costing taxpayers almost half a billion dollars a year—were registered through an IEH override. Therefore, I respectfully request that you provide the following information to my office:

1. Of the 4,291,647 subscribers enrolled using an IEH override between October 2014 and April 2016, how many are still enrolled in the Lifeline program? To the extent these subscribers are no longer enrolled, please quantify (1) how many subscribers left the program of their own volition, (2) how many de-enrolled as a result of a specific investigation, audit, or review, and (3) how many de-enrolled as a result of annual verification checks.
2. Please explain the process USAC used to establish the current IEH override process. Specifically, please explain why carriers are not required to collect any documentation demonstrating that a subscriber is “part of a separate household” for purposes of an IEH override and why staff do not review either the certification form or any documentation before authorizing an IEH override.
3. Please describe the steps USAC has taken to verify the integrity of the IEH override process. Specifically, I am interested in understanding the steps taken to verify that subscribers enrolled with an IEH override are in fact economically independent from other Lifeline subscribers at the same address.
 - a. For example, one Total Call Mobile sales agent testified that he filled out applications, checking off the boxes he knew applicants needed to check to enroll. What process does USAC use to minimize and detect such behavior?
 - b. Does USAC contact existing subscribers at a particular address before enrolling a new subscriber at that address to verify economic independence?
 - c. Has USAC sampled a set of subscribers to determine whether subscribers can demonstrate economic independence through documentation (such as tax forms)?
 - d. Has USAC coordinated with federal or state agencies to determine whether subscribers have consistently represented themselves as economically independent?
4. According to the 2014 Lifeline Biennial Audit Plan, independent auditors were required to create a list of apparent duplicates for each carrier subject to the audit and verify for a sample of 30 apparent duplicates that “at least one subscriber at each address [has] complete[d] a one-per-household worksheet.” Were auditors required to verify whether such subscribers were actually economically independent from other Lifeline subscribers at the same address for a sample of apparent duplicates? If not, why not?
5. Please describe any investigations, audits, or reviews that USAC has conducted from October 2014 to the present to verify that subscribers enrolled with an IEH override are in fact economically independent from other Lifeline subscribers at their address. Please include any such reports drafted or issued by USAC or, in the case of no such report, a summary of USAC’s findings.
6. Please describe any recommendations USAC has to improve the IEH override process to ensure that taxpayer funds are not wasted. Please identify any FCC rule changes that would be necessary to effectuate such improvements.
7. You reported in your May 2 letter that USAC also conducts Payment Quality Assurance (PQA) reviews and regularly analyzes the NLAD for “anomalies, duplicates, or other errors that may signal improper payments of potentially fraudulent behavior.” As a result of those

reviews, USAC discovered and de-enrolled 373,911 duplicates from the NLAD between February and May 2015. Please describe any other investigations, audits, or reviews that USAC has conducted from October 2014 to the present to eliminate duplicate subscribers from the NLAD. Please include any such reports drafted or issued by USAC or, in the case of no such report, a summary of USAC's findings.

8. In the Total Call Mobile case, one sales agent alleged that he could enroll the same person multiple times in the NLAD so long as the applicant used different devices within a 15-minute timespan. Is this claim true? If so, what steps will USAC take to close this apparent loophole?

I appreciate USAC's continued work to protect the American taxpayer and safeguard the Universal Service Fund. I also appreciate that USAC often takes instruction from the FCC in fulfilling its role. Given the hundreds of millions in taxpayer funds apparently lost to unscrupulous behavior in the Lifeline program, I hope you will agree that USAC's paramount task must be to eliminate waste, fraud, and abuse from the Lifeline program. I therefore ask that you respond with the requested information by June 28, 2016. If you have any questions, please feel free to contact Nicholas Degani in my office at (202) 418-2000.

Sincerely,



Ajit Pai
Commissioner
Federal Communications Commission



Confidential: Not for Public Inspection for Disclosure

June 14, 2016

The Honorable Ajit Pai
 Commissioner
 Federal Communications Commission
 445 12th Street, S.W.
 Washington, DC 20554

Dear Commissioner Pai:

Thank you for your follow-up letter concerning the Universal Service Fund's (USF) Lifeline Program. The Universal Service Administrative Company (USAC) is dedicated to continuing to working with the Federal Communications Commission (FCC) to combat waste, fraud and abuse in the USF programs. We welcome the insights provided in your detailed inquiries and value this opportunity to work with you to improve the Lifeline Program.

As you know, the *2012 Lifeline Reform Order* implemented significant changes to enhance accountability and prevent waste, fraud and abuse of in the Lifeline Program, including the launch of the National Lifeline Accountability Database (NLAD).¹ The 2015 and 2016 *Lifeline Reform Orders* built on those efforts, which among other things mandate retention of Lifeline eligibility documentation and establish a National Eligibility Verifier to make eligibility determinations in the Lifeline Program.² USAC is working diligently to develop and launch the National Eligibility Verifier, including meeting with states, public utility commissions and other agencies to coordinate efforts and fully utilize the new tools provided in those orders to ensure that only eligible subscribers are enrolled in the Lifeline Program. With the launch of the new verifier, the program will no longer have to rely upon the integrity of individual carriers, as you noted in your letter, but instead will rely upon USAC and our independent verification of identity and eligibility before funds are provided to the carriers. We are continuing to work with the FCC, including the Wireline Competition Bureau and Enforcement Bureau, to ensure that we build upon the lessons learned, and continue to protect the USF to ensure that the Lifeline Program continues to assist the intended beneficiaries.

¹ *Lifeline and Link Up Reform and Modernization, Lifeline and Link Up, Federal-State Joint Board in Universal Service, Advancing Broadband Availability Through Digital Literacy Training*, WC Docket No. 11-42, *et al.*, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656 (2012) (*2012 Lifeline Reform Order*).

² *Lifeline and Link Up Reform and Modernization, Telecommunications Carriers Eligible for Universal Service Support, Connect America Fund*, WC Docket No. 11-42, *et al.*, Second Further Notice of Proposed Rulemaking, Order on Reconsideration, Second Report and Order, and Memorandum Opinion and Order, 30 FCC Rcd 7313 (2015) (*2015 Lifeline Reform Order*); *Lifeline and Link Up Reform and Modernization, Telecommunications Carriers Eligible for Universal Service Support, Connect America Fund*, WC Docket No. 11-42 *et al.*, Third Report and Order, Further Report and Order on Reconsideration, 2016 WL 1706939 (April 27, 2016) (*2016 Lifeline Reform Order*).

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Below, we provide responses to your specific questions along with several attachments detailing the data and information you requested.

1. *Your responses highlight 13 wireless resellers that have frequently overridden federal safeguards and were not identified in my original letter (i.e., [REDACTED]).*

For each of these wireless resellers, please provide:

- a. *A description of any investigations, audits, or reviews that USAC has conducted on such companies from October 2014 to the present, along with any such reports drafted or issued by USAC or, in the case of no such report, a summary of USAC's findings.*

Our May 2, 2016 letter described the Beneficiary and Contributor Audit Program (BCAP), the Payment Quality Assurance (PQA) reviews, the Biennial Audits, and the Lifeline Program Duplicate Resolution processes. As with the companies noted in that letter, USAC provides information regarding audits and/or reviews as applicable, for the 13 companies named in your May 31, 2016 letter.

First, since October 2014, USAC's Internal Audit Division (IAD) has not completed any BCAP audits of the 13 named carriers. USAC, however, is currently conducting BCAP audits of [REDACTED]. USAC anticipates submitting the [REDACTED] audit report to its Board of Directors for consideration in [REDACTED], and the remaining audit reports are scheduled to be submitted to the Board of Directors in the fourth quarter of 2016 or first quarter of 2017.

In addition, the following eight of the 13 companies were subject to the FCC's Biennial Audit requirement in 2013: [REDACTED]. The eight reports are attached for your reference.

USAC also conducted PQA reviews of the 13 companies. A summary of USAC's PQA results for the 13 named carriers is provided in response to Question 1(b) below along with the result of our Duplicate Resolution Process.

- b. *If USAC informed any such carrier of duplicate enrollments, the number of duplicate enrollments involved and the date(s) on which the carrier de-enrolled them.*

As noted in our May 2, 2016 letter, USAC uses multiple levels of analysis, review, and data analytics to identify and remove duplicate Lifeline subscribers and has taken additional actions to prevent the enrollment of duplicates.

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The PQA review process is one method used to identify and notify carriers of Lifeline duplicate subscribers. For each of the 13 named carriers, the PQA review identified the number of duplicates in those subscriber lists for disbursements made from October 2014 to December 2014. USAC is currently conducting its PQA review of disbursements issued in 2015, which remains open at this time.

Carrier	Case No.	Total Subscribers	Number of Duplicates
[REDACTED]			

As part of the Duplicate Resolution Process, USAC notified each carrier of the duplicate enrollments that were identified as a result of USAC's internal review of records from February 2015 to May 2015. A detailed listing of these duplicates, including the date the duplicate subscriber was de-enrolled from NLAD, is provided below.

Carrier	Total Subscribers (From Feb 2015)	Total Duplicates De-enrolled	De-enroll %
[REDACTED]			
Total			

We also wanted to bring to your attention to the completion of Puerto Rico duplicate resolution process. This process was just completed on June 3, 2016 following the loading of subscriber data from Puerto Rico, which was previously an opt-out territory for NLAD. As a result of this process, we provide additional information regarding four carriers named in previous correspondence.

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Carrier	Total Subscribers	Total Duplicates De-enrolled	De-enroll %

- c. *To the extent USAC knows, how many subscribers for each carrier relied on Supplemental Nutrition Assistance Program (SNAP) cards for eligibility verification and how many of such subscribers used temporary or blank SNAP cards for such verification.*

The attached report, "SNAP Enrollments (June 2016) (Confidential)," is based on data reported by the carriers in the NLAD system. As noted in USAC's May 2, 2016 letter, NLAD requires carriers to select the type of eligibility program from a drop-down menu, which lists SNAP as one of several eligible programs. As such, the attached list includes all subscribers for October 2014 through present for which the carrier selected the SNAP program, but the list does not specify the exact type of documentation reviewed by the carrier.

2. *Please explain the rationale and the process USAC used to establish the current TPIV override process (now called the TPIV dispute resolution process). Specifically, please explain why staff do not review any documents identifying a person before authorizing a TPIV override.*

In the *2012 Lifeline Reform Order*, the Commission mandated creation and use of the NLAD with specified features and functionalities, including a third-party identity verification (TPIV) service, to detect and eliminate duplicate support.³ Recognizing that any "duplicates elimination process must balance the need to reduce waste in the [USF] against mistakenly denying consumers Lifeline benefits," the Commission directed USAC, in consultation with the Wireline Competition Bureau, to establish dispute resolution processes to resolve disputes over duplicate support consistent with the Commission's rules.⁴

Pursuant to the *2012 Lifeline Reform Order*, in July 2014, USAC established processes to manage and resolve disputes over duplicative support, including a TPIV override feature in NLAD where an eligible telecommunications carrier (ETC) could submit a TPIV override at the time they received a TPIV failure after attempting to enroll a consumer. To use this process, ETCs were required to review one of a list of approved documents provided to the ETC by the subscriber that would serve to verify the subscriber's identity. The Wireline Competition Bureau and USAC believed at the time that this flexible approach was necessary to prevent hundreds of

³ *2012 Lifeline Reform Order*, 27 FCC Rod at 6734, 42, paras. 179, 200.

⁴ *Id.* at 6747, 6749, paras. 212, 217.

Commissioner Pai
June 14, 2016
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thousands of otherwise eligible subscribers from being denied Lifeline service in contravention of the mandate of the *2012 Lifeline Reform Order*.⁵

In late 2014, USAC began to identify an increase in the number of likely duplicate entries and initiated an investigation to determine the root cause. Based on USAC's review of the data, it appeared that some subscriber entries were identical except for a single changed field [REDACTED] and that the vast majority of these duplicate records were entered into NLAD through the TPIV override process. On February 2, 2015, following discussions with Wireline Competition Bureau Staff, USAC removed the TPIV override and implemented the current TPIV dispute resolution process.

Today, the dispute resolution process requires ETCs to submit a TPIV resolution ticket for USAC approval when subscribers fail the TPIV check. The resolution ticket must include the name or identification number of the agent, the proper document reviewed to override the failure and a certification that the documentation was reviewed to which any false claims could result in criminal prosecution and civil penalties. Upon submission, USAC reviews each dispute and provides an override upon verification that the subscriber's identity was appropriately validated.

Until the document retention rules were changed in the *2015 Lifeline Reform Order*,⁶ ETCs were prohibited from retaining copies of documentation used to verify subscriber eligibility. As such, prior to February 2016, there were no documents available for USAC's review as part of a TPIV dispute resolution ticket, or a BCAP audit or PQA review. Going forward, because this documentation must be retained by the ETCs, audits of Lifeline carriers will confirm that documentation was appropriately reviewed to verify a subscriber's identity.

3. *Please describe any investigations, audits, or reviews that USAC has conducted from October 2014 to the present to verify that subscribers enrolled through either the previous or the current TPIV override process did in fact provide proper documentation to establish their identities. Please include any such reports drafted or issued by USAC or, in the case of no such report, a summary of USAC's findings.*

As described above, until February 2016, carriers were not permitted to retain the referenced subscriber documentation. However, USAC has employed multiple methods for review of Lifeline service providers, including BCAP audits and PQA reviews that have provided insight into the carriers' certification and recertification processes. In addition, USAC has undertaken its own data analytics to review the information submitted into NLAD. As part of this process, we have identified and discussed with the Wireline Competition Bureau [REDACTED]

[REDACTED] In addition, when USAC has identified a possible misuse of the independent economic household (IEH) flag, we have conducted our own independent research

⁵ All TPIV products have an average failure rate (meaning the identity of a real person cannot be reliably verified by the TPIV database) that is likely to be higher among low income consumers due to their typically less robust public record that the vendor draws upon to conduct a TPIV check.

⁶ *2015 Lifeline Reform Order*, 30 FCC Rod at 7395, para. 231.

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of those addresses and sent our data analysis to the FCC. [REDACTED]
[REDACTED]

4. *Please explain the rationale and the process USAC used to establish the current address override process. Specifically, please explain why staff do not review any documents establishing a person's address before authorizing an address override.*

As explained in USAC's May 25, 2016 letter, the inclusion of two address related flags (rural and tribal) in NLAD was required by the FCC in the *2012 Lifeline Reform Order*, which required USAC to implement an exceptions management process to ensure that consumers are not improperly denied access to Lifeline benefits.⁷ As noted in our response to Question 2 above, until February 2016, ETCs were not permitted to retain copies of documentation used to verify subscriber eligibility. As such, there were no documents available for USAC's review. Going forward, because this documentation must be retained by the ETCs, audits and other reviews of Lifeline carriers will confirm that documentation was appropriately reviewed to verify a subscriber's identity.

5. *Please describe any investigations, audits, or reviews that USAC has conducted from October 2014 to the present to verify that subscribers enrolled with an address override did in fact provide proper documentation to establish their addresses. Please include any such reports drafted or issued by USAC or, in the case of no such report, a summary of USAC's findings.*

As described above, until February 2016, carriers were not permitted to retain copies of the referenced documentation. In addition to the methods discussed above, USAC continues to invest in data analytic capabilities to enhance our in-depth data validation processes to prevent and remove abuse of IEH flag.

6. *In your May 18 letter, you explained that USAC has the ability to compare the number of subscribers in NLAD with the number of subscribers reported on the Form 497 on a case-by-case basis. I am interested in comparing those numbers on a monthly basis for each of the 16 identified wireless resellers, and my staff has identified a sample state for each one to make this inquiry more tractable. For each month from October 2014 to the present, please provide the number of subscribers in the NLAD as well as the number of subscribers reported on relevant Forms 497 for:*
 - a. [REDACTED] in Ohio,
 - b. [REDACTED] in Michigan,
 - c. [REDACTED] in Georgia,
 - d. [REDACTED] in Oklahoma,

⁷ *2012 Lifeline Reform Order*, 27 FCC Rcd at 6747-48, para. 212 (noting, for example, that some residences on Tribal lands lack U.S. Postal services addresses, and that without an exception process, consumers with addresses not recognized by the U.S. Postal Service may be inappropriately denied Lifeline support).

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- e. [REDACTED] in Puerto Rico.
- f. [REDACTED] in Minnesota.
- g. [REDACTED] in Hawaii.
- h. [REDACTED] in Oklahoma.
- i. [REDACTED] in Oklahoma.
- j. [REDACTED] in Pennsylvania.
- k. [REDACTED] in New York.
- l. [REDACTED] in Maryland.
- m. [REDACTED] in Kansas.
- n. [REDACTED] in Kentucky.
- o. [REDACTED] Rhode Island, and
- p. [REDACTED] in Arkansas.

The NLAD system is a dynamic, real-time database that reflects minute-by-minute changes made through enrollments, de-enrollments, and transfers. For the purpose of Lifeline Program disbursements, ETCs report their total subscribers at a particular point in time on each FCC Form 497. However, the rules do not require carriers to submit the FCC Form 497 on a monthly basis, but instead allows them to submit within a year of the applicable month claimed. In addition, carriers may revise their FCC Form 497 for a full year, which can also cause changes in the number of subscribers. As such, it is not possible to match the count of subscribers in NLAD at the exact point in time that subscribers were counted by a carrier for the purpose of submitting the FCC Form 497. USAC also does not retain copies or snapshots of NLAD, but can use transaction history to recreate any point in time requested, which we have done in order to respond to this request. Therefore, to perform the analysis, USAC retroactively produced a listing of any subscriber ever attributed to each carrier in NLAD during the calendar month and the subscriber count was then compared to the FCC Form 497 filed by the carrier for that same data month. A summary of this comparison is provided in the attached chart, "FCC Form 497 and NLAD Subscriber Counts (Confidential)."

USAC remains committed to ensuring the Universal Service Fund is protected from waste, fraud, and abuse and looks forward to continuing to work with the FCC to ensure that contributions from consumers are disbursed in accordance with FCC rules and regulations. Please let us know if you need any additional information or have any questions about the responses provided.

Sincerely,



Chris Henderson
 Chief Executive Officer
 Universal Service Administrative Company

Enclosures

Index of Attachments

- Attachment 1 - [REDACTED] Biennial Audit Report
- Attachment 2 - [REDACTED] Biennial Audit Report
- Attachment 3 - [REDACTED] Biennial Audit Report
- Attachment 4 - [REDACTED] Biennial Audit Report
- Attachment 5 - [REDACTED] Biennial Audit Report
- Attachment 6 - [REDACTED] Biennial Audit Report
- Attachment 7 - [REDACTED] Biennial Audit Report
- Attachment 8 - [REDACTED] Biennial Audit Report
- Attachment 9 - SNAP Enrollments (June 2016) (Confidential)
- Attachment 10 - FCC Form 497 and NLAD Subscriber Counts (Confidential)

Biennial Audit Reports
Attachments Redacted in Their Entirety

Attachment 9 – SNAP Enrollments (June 2016)
(Confidential)

Attachment Redacted in its Entirety

**Attachment 10 – FCC Form 497 and NLAD
Subscriber Counts (Confidential)
Attachment Redacted in its Entirety**



Confidential, Not for Public Inspection for Disclosure

July 14, 2016

The Honorable Ajit Pai
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Dear Commissioner Pai:

Thank you for your letters concerning the Universal Service Fund's (USF) Lifeline Program. The Universal Service Administrative Company (USAC) is dedicated to continuing to working with the Federal Communications Commission (FCC or Commission) to combat waste, fraud and abuse in the USF programs. We welcome your questions about the independent economic household (IEH) designation established in the *2012 Lifeline Reform Order*.¹

As you know, in the *2012 Lifeline Reform Order*, the FCC codified the rule limiting Lifeline support to a single subscription per household and defined "household" as "any individual or group of individuals who are living together at the same address as one economic unit."² The Commission also took steps to anticipate and resolve instances where multiple households reside at the same address finding it "preferable to implement procedures to enable applicants to demonstrate at the outset that any other Lifeline recipients residing at their residential address are part of a separate household."³ In order to determine if individual applicants living at the same address are separate economic units, the FCC mandated the use of the IEH worksheet that must provide: "(1) an explanation of the Commission's one-per-household rule; (2) a check box that an applicant can mark to indicate that he or she lives at an address occupied by multiple households; (3) a space for the applicant to certify that he or she shares an address with other adults who do not contribute income to the applicant's household and share in the household's expenses or benefit from the applicant's income...; and (4) the penalty for consumer's failure to make the required one-per-household certification (*i.e.* de-enrollment)."⁴ As a result of this rule, the IEH flag was included in the National Lifeline

¹ *Lifeline and Link Up Reform and Modernization, Lifeline and Link Up, Federal-State Joint Board in Universal Service, Advancing Broadband Availability Through Digital Literacy Training*, WC Docket No. 11-42, *et al.*, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656 (2012) (*2012 Lifeline Reform Order*).

² *Id.* at 27 FCC Rcd at 6689, para. 74 (noting this definition is "consistent with the definition used in the Low-Income Home Energy Assistance Program").

³ *Id.* at 27 FCC Rcd at 6690, para. 77.

⁴ *Id.* at 27 FCC Rcd at 6691, para. 78.

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Accountability Database (NLAD) to allow carriers to identify subscribers who qualified as an independent economic household under the Commission's rules.

Below, we provide responses to your specific questions along with an attachment detailing the data and information you requested.

1. *Of the 4,291,647 subscribers enrolled using an IEH override between October 2014 and April 2016, how many are still enrolled in the Lifeline program? To the extent these subscribers are no longer enrolled, please quantify (1) how many subscribers left the program of their own volition, (2) how many de-enrolled as a result of a specific investigation, audit, or review, and (3) how many de-enrolled as a result of annual verification checks.*

The detailed data related to subscribers who were enrolled in NLAD between October 2014 and April 2016 with an IEH flag is provided in the attached Excel spreadsheet.

The approximately 4 million subscribers referenced in this question include all of the subscribers enrolled in NLAD from October 2014 through April 2016 with an IEH flag. USAC believes that some carriers may automatically request an IEH worksheet and select the flag in NLAD as part of their routine enrollment process, and therefore some subscribers may be enrolled with the IEH flag checked when it is not necessary. While it is difficult to calculate when an IEH worksheet was actually needed, as the overrides and the need for overrides change minute by minute, we've reviewed the "current" state of addresses to illustrate this point. Specifically, of those 2.6 million addresses currently associated with the IEH designation, there are approximately 890,000 addresses that have more than one subscriber living at them (35%), and 1.7 million IEH flags associated with addresses where only a single subscriber is present (65%). It can be inferred that since 1.7 million addresses associated with the IEH designation only have one subscriber present at the address, then those 1.7 million active subscribers out of the 3.9 million active subscribers with the IEH flag do not in fact need the IEH flag to remain enrolled in the program. In other words, 43% of all current subscribers marked with the IEH flag do not in fact need the IEH flag, as set forth in the chart below.

Address Type	Addresses	% Address	Subscribers	% Subscriber
>1 active subscribers at address	887,569	35%	2,186,815	57%
only 1 active subscriber at address	1,663,907	65%	1,663,907	43%
Total Active IEH Subscribers	2,551,476	100%	3,850,722	100%

2. *Please explain the process USAC used to establish the current IEH override process. Specifically, please explain why carriers are not required to collect any documentation demonstrating that a subscriber is "part of a separate household" for purposes of an IEH override and why staff do not review either the certification form or any documentation before authorizing an IEH override.*

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As described above, the definition of “household” and the related IEH worksheet was established by the Commission in the *2012 Lifeline Reform Order*. The Commission provided for a self-certifying process for subscribers to establish their status as an independent economic household and did not require the carrier or USAC to conduct any verification of that certification. Specifically, the Commission stated that:

“[W]e are requiring consumers to furnish only as much information as is needed for the ETC to verify the consumer’s compliance with the one-per-household rule, which allows more than one Lifeline-supported service at a given address in specific circumstances. We are not expecting a consumer, for example, to list the names of other residents of their household or explain personal or familial relationships on the Lifeline application form. Rather . . . it would be sufficient for a consumer to state that he or she shares an address with other adults who do not contribute income to their household or share in the household expenses. We are not imposing an obligation on ETCs to investigate or inquire further about the specifics of those household arrangements.”⁵

Consistent with the *2012 Lifeline Reform Order*, carriers have never been obligated to collect documentation underlying the certification. In addition, until February 2016, carriers were prohibited from retaining documentation related to the subscriber’s identity or eligibility.⁶ Carriers are, however, required to obtain an IEH worksheet completed by the subscriber that indicates they qualify as a separate economic household. As part of USAC’s Beneficiary and Contributor Audit Program (BCAP) and Payment Quality Assurance (PQA) reviews, USAC requires carriers to produce the IEH worksheet for sampled subscribers and those worksheets are carefully reviewed.

USAC does not currently request the IEH worksheet before permitting each individual enrollment. However, with the creation of the National Lifeline Eligibility Verifier (National Verifier) and USAC’s role as the neutral third-party Lifeline eligibility administrator, we will work with the Commission to determine the necessary level of review of IEH worksheets and other related documentation to ensure program integrity.

3. *Please describe the steps USAC has taken to verify the integrity of the IEH override process. Specifically, I am interested in understanding the steps taken to verify that subscribers enrolled with an IEH override are in fact economically independent from other Lifeline subscribers at the same address.*

⁵ *Id.* at 27 FCC Rcd at 6694-95, para. 84.

⁶ *Id.* at 27 FCC Rcd at 6703, para. 101 (“While ETCs will be required to examine such documentation as appropriate to verify a consumer’s program or income-based eligibility for initiating Lifeline service, ETCs are not required to and should not retain copies of the documentation.”); *See also Lifeline and Link Up Reform and Modernization, Telecommunications Carriers Eligible for Universal Service Support, Connect America Fund*, WC Docket No. 11-42, et al., Second Further Notice of Proposed Rulemaking, Order on Reconsideration, Second Report and Order, and Memorandum Opinion and Order, 30 FCC Rcd 7818, 7891-96, paras. 224-235 (2015) (*2015 Lifeline Reform Order*).

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- a. *For example, one Total Call sales agent testified that he filled out applications, checking off the boxes he knew applicants needed to check to enroll. What process does USAC use to minimize and detect such behavior?*

USAC's BCAP and PQA audit and review processes do review the underlying IEH worksheets. As part of that review, the auditors [REDACTED]

[REDACTED] In these cases, USAC refers the necessary information to the FCC for further review and possible investigation. In other instances, when USAC has found unusual data that may not be indicative of fraud, but instead an error or misunderstanding, we have reached out to carriers to verify the information entered into NLAD. [REDACTED]

- b. *Does USAC contact existing subscribers at a particular address before enrolling a new subscriber at that address to verify economic independence?*

Currently, USAC does not enroll subscribers into the Lifeline Program. At this time, the responsibility to determine subscriber eligibility within the Lifeline Program and compliance with the IEH limitation resides with the carriers. Also, as noted in response to Question 2, the FCC did not require subscribers to provide any additional proof to support the self-certification made on the IEH worksheet. As such, USAC has not contacted existing subscribers, but does work with the Commission's Enforcement Bureau and Office of Inspector General when anomalies or other information is identified that needs further review.

- c. *Has USAC sampled a set of subscribers to determine whether subscribers can demonstrate economic independence through documentation (such as tax forms)?*

As noted above, the FCC's 2012 Lifeline Reform Order did not require subscribers to provide any documentation to support the self-certification made on the IEH worksheet. In addition, carriers were prohibited from retaining any documentation related to identity or eligibility until February 2016.⁷

- d. *Has USAC coordinated with federal or state agencies to determine whether subscribers have consistently represented themselves as economically independent?*

⁷ *Id.*

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For its upcoming role as administrator of the National Verifier, USAC is evaluating how it may utilize data from federal and state agencies to verify eligibility including the subscriber's status as an independent economic household.

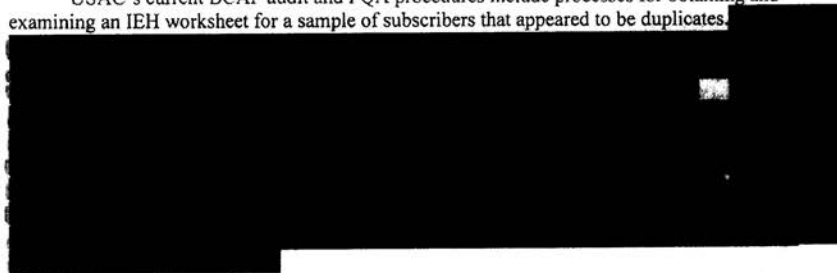
4. *According to the 2014 Lifeline Biennial Audit Plan, independent auditors were required to create a list of apparent duplicates for each carrier subject to the audit and verify for a sample of 30 apparent duplicates that "at least one subscriber at each address [has] complete[d] a one-per-household worksheet." Were auditors required to verify whether such subscribers were actually economically independent from other Lifeline subscribers at the same address for a sample of apparent duplicates? If not, why not?*

The 2014 Lifeline Biennial Audit Plan was developed in coordination with the FCC OMD. With regard to the IEH requirement, the procedures were limited to obtaining an IEH worksheet for a sample of subscribers that appeared to be duplicates. As noted above, the FCC rules now require carriers to obtain the completed IEH worksheet from the potential subscriber to verify subscriber eligibility. However, during the time period covered by the 2014 plan, carriers were only required to maintain the worksheet rather than other supporting eligibility documentation. In addition, documentation to establish subscriber identity was not required by the FCC until it modified the relevant rule, which became effective on February 17, 2016.

Because carriers were not allowed to investigate subscribers living at the same household beyond obtaining a completed IEH worksheet, the procedures for the 2014 Lifeline Biennial Plan did not require USAC's auditors to go beyond obtaining a copy of those worksheets to verify whether such subscribers were actually economically independent from other Lifeline subscriber at the same address.

5. *Please describe any investigations, audits, or reviews that USAC had conducted from October 2014 to the present to verify that subscribers enrolled with an IEH override are in fact economically independent from other Lifeline subscribers at their address. Please include any such reports drafted or issued by USAC or, in the case of no such report, a summary of USAC's findings.*

USAC's current BCAP audit and PQA procedures include processes for obtaining and examining an IEH worksheet for a sample of subscribers that appeared to be duplicates.



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6. *Please describe any recommendations USAC has to improve the IEH override process to ensure that taxpayer funds are not wasted. Please identify any FCC rule changes that would be necessary to effectuate such improvements.*

USAC continues to support the Commission's efforts to reduce waste, fraud and abuse in the Lifeline Program and believe that administrative checks on eligibility must be balanced with reasonable access to the program for the individuals it is designed to serve as set forth in the Commission's framework for the program.⁸ We will work collaboratively with the Commission to implement the National Verifier in a manner that will address these risks to the greatest extent possible.

7. *You reported in your May letter that USAC also conducts Payment Quality Assurance (PQA) reviews and regularly analyzes the NLAD for "anomalies, duplicates, or other errors that may signal improper payments of potentially fraudulent behavior." As a result of those reviews, USAC discovered and de-enrolled 373,911 duplicates from the NLAD between February and May 2015. Please describe any other investigations, audits, or reviews that USAC has conducted from October 2014 to the present to eliminate duplicate subscribers from the NLAD. Please include any such reports drafted or issued by USAC or, in the case of no such reports, a summary of USAC's findings.*

USAC has not issued any specific reports and findings related to these specific issues, but we do work with the Commission's Enforcement Bureau and Office of Inspector General to refer certain anomalies that are revealed through data analysis of NLAD. [REDACTED]

8. *In the Total Call Mobile case, one sales agent alleged that he could enroll the same person multiple times in the NLAD so long as the applicant used different devices within a 15-minute timespan. Is this claim true? If so, what steps will USAC take to close this apparent loophole?*

Based on our design and testing of the NLAD system, USAC does not believe that the scenario described in this question is possible, nor has it ever been possible given the real-time enrollment processes used by the database. [REDACTED]

⁸ 2012 Lifeline Reform Order, 27 FCC Rcd at 6689, 6690-91, para. 74, 77-78.

Commissioner Pai
July 14, 2016
Page 7

USAC remains committed to ensuring the Universal Service Fund is protected from waste, fraud, and abuse and looks forward to continuing to work with the FCC to ensure that contributions from consumers are disbursed in accordance with FCC rules and regulations. Please let us know if you need any additional information or have any questions about the responses provided.

Sincerely,

A handwritten signature in black ink, appearing to read "CH Henderson", written over a horizontal line.

Chris Henderson
Chief Executive Officer
Universal Service Administrative Company

Enclosure

**Lifeline Subscribers Enrolled Between October
2014 and April 2016 (Confidential)
Attachment Redacted in its Entirety**



FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, DC 20554

Ajit Pai
Commissioner

August 1, 2016

Mr. Chris Henderson
Chief Executive Officer
Universal Service Administrative Company
2000 L Street NW, Suite 200
Washington, DC 20036

Dear Mr. Henderson,

Thank you very much for your letters dated June 14 and July 14 regarding the waste, fraud, and abuse that has riddled the Universal Service Fund's Lifeline program since wireless resellers began participating in this program in earnest in 2009. I appreciate your diligence.

My letters thus far have explained our investigation into Total Call Mobile and its apparent exploitation of loopholes in the National Lifeline Accountability Database (NLAD), which is supposed to protect taxpayer funds. My inquiry today concerns the ability of unscrupulous wireless resellers to avoid the safeguards of the NLAD altogether.

In your May 18 letter, you explained that the NLAD does not prevent wireless resellers from requesting and receiving federal subsidies for subscribers who are not enrolled in the NLAD. Specifically, you explained that a wireless reseller receives support based on the number of subscribers it claims on Form 497—not based on the number of subscribers enrolled in the NLAD. You further explained that the NLAD does not automatically verify a wireless reseller's claimed number of subscribers each month but that USAC can compare these numbers on a case-by-case basis.

In other words, a wireless reseller may seek federal funds for subscribers who aren't subject to federal safeguards at all. These "subscribers" might be actual customers whose Lifeline eligibility has not been verified through the NLAD. Or they might be phantom customers who do not even exist. In either case, the reseller can get away with receiving federal funds unless they're caught after the fact.

In your June 14 letter, you confirmed that certain wireless resellers did indeed exploit this loophole. To take the most egregious example, [REDACTED] in May 2016 claimed it served 31,525 more [REDACTED] subscribers than recorded in the NLAD. And this month was no outlier. That same wireless reseller claimed, on average, 22,325 more subscribers on its Form 497 than appeared in the NLAD, exploiting this loophole 446,513 times between October 2014 and the present. One other wireless reseller, [REDACTED], used this loophole 5,918 times in [REDACTED]. Among the other 14 wireless resellers surveyed, six claimed subsidies for more subscribers than recorded in the NLAD a total of 7,601 times, and eight others appear not to have relied on the loophole at all.

If American taxpayers are to have faith in the Universal Service Fund, they must know that the Lifeline program only supports actual, eligible subscribers, not phantoms. To that end, I request that you provide my office with the following information:

1. In your June 14 letter, you explained that "ETCs report their total subscribers at a particular point in time on each FCC Form 497," but that it "is not possible to match the count of subscribers in NLAD at the exact point in time that subscribers were counted by a carrier." As such, USAC's

NLAD enrollment numbers conservatively include every “subscriber ever attributed to each carrier in NLAD during the calendar month.” As such, is there a legitimate reason why a carrier could submit a higher subscriber count on its Form 497 than in the NLAD enrollment numbers you provided? If not, please explain whether USAC plans to recover any improperly paid subsidies.

2. The vast majority of unverified or phantom subscribers are attributable to one reseller, [REDACTED], with a significant number attributable to another, [REDACTED]. For each month from October 2014 to the present, please provide the number of subscribers in the NLAD as well as the number of subscribers reported on relevant Forms 497 for these resellers in every state in which they offered Lifeline service.
3. The vast majority of unverified or phantom subscribers are attributable to one state, [REDACTED], with a significant number attributable to another, [REDACTED]. For each month from October 2014 to the present, please provide the number of subscribers in the NLAD as well as the number of subscribers reported on relevant Forms 497 for every Lifeline carrier that offers service in these states.
4. Please describe what safeguards the program has in place, if any, to ensure that every subscriber claimed on a Form 497 was properly enrolled in the NLAD and assigned by the NLAD to that carrier. To the extent loopholes exist, please explain whether USAC could close those loopholes on its own or whether closing the loophole would require FCC action.
5. Please describe any investigations, audits, or reviews that USAC has conducted from October 2014 to the present that compared a carrier’s subscribers in the NLAD to the number of subscribers it reported on relevant Form(s) 497. Please explain whether any such investigations, audits, or reviews led to referrals to the relevant state commission, to the FCC’s Inspector General, to the FCC’s Enforcement Bureau, or to any other person at the FCC.
6. You have previously explained that USAC compares NLAD data to Form 497 data only on a case-by-case basis. Could you please explain why that is? Would an automatic comparison help detect unverified or phantom subscribers better than case-by-case review? Would it be possible for USAC to compare such data automatically each month, flagging discrepancies for further investigation, audit, or review?
7. Your June 14 letter revealed another problem with the NLAD: bloat. Some of the 16 wireless resellers surveyed had thousands or even tens of thousands of subscribers enrolled in the NLAD who were not claimed on their Forms 497. For example, [REDACTED] in [REDACTED] reported on average 15,931 fewer subscribers on its Forms 497 than it had enrolled in the NLAD. The existence of this bloat makes determining compliance with federal safeguards more difficult. That is because an unscrupulous reseller could increase its reimbursements substantially without subjecting new subscribers to the NLAD’s safeguards—the extra subscribers in the NLAD would mask the fact that the new subscribers claimed on a Form 497 may not in fact be eligible (or may not even exist) and give unscrupulous conduct the aura of legitimacy.
 - a. Please describe the procedures wireless resellers are supposed to follow to de-enroll subscribers from the NLAD.
 - b. Please describe what safeguards exist, if any, to ensure that wireless resellers properly follow those de-enrollment procedures.
 - c. Please describe further any investigations, audits, or reviews that USAC has conducted from October 2014 to the present to verify that wireless resellers are properly de-enrolling subscribers and to remove the non-subscriber bloat from the NLAD.

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I appreciate USAC's continued work to protect American taxpayers and safeguard the Universal Service Fund. Given the many millions in taxpayer funds that have already gone to waste, I ask that you respond with the requested information by August 15, 2016. If you have any questions, please feel free to contact Nicholas Degani in my office at (202) 418-2000.

Sincerely,

A handwritten signature in black ink, appearing to read "Ajit Pai".

Ajit Pai
Commissioner
Federal Communications Commission



Confidential, Not for Public Inspection for Disclosure

August 15, 2016

The Honorable Ajit Pai
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Dear Commissioner Pai:

Thank you for your letters concerning the Universal Service Fund's (USF) Lifeline program. The Universal Service Administrative Company (USAC) is dedicated to continuing to working with the Federal Communications Commission (FCC or Commission) to combat waste, fraud and abuse in the USF programs, and we welcome the continued dialogue regarding the Lifeline program.

Below, we provide responses to your specific questions along with attachments detailing the data and information you requested.

1. *In your June 14 letter, you explained that "ETCs report their total subscribers at a particular point in time on each FCC Form 497," but that it "is not possible to match the count of subscribers in [the National Lifeline Accountability Database (NLAD)] at the exact point in time that subscribers were counted by a carrier." As such, USAC's NLAD enrollment numbers conservatively include every "subscriber ever attributed to each carrier in NLAD during the calendar month." As such, is there a legitimate reason why a carrier could submit a higher subscriber count on its Form 497 than in the NLAD enrollment numbers you provided? If not, please explain whether USAC plans to recover any improperly paid subsidies.*

1

¹ Letter to Commissioner Pai, FCC, from Chris Henderson, USAC (June 14, 2016).

Commissioner Pai
August 15, 2016
Page 2

Importantly, since May 2015, in the aggregate, there has been no month where the total FCC Form 497 claims for reimbursement exceeded the number of subscribers in NLAD.

Some of the challenges with comparing the FCC Form 497 and NLAD data will be reduced with the establishment of the “uniform snapshot date” adopted in the *2015 Lifeline Reform Order*.³ As you know, the *2015 Lifeline Reform Order* provided for a standard snapshot date by which subscribers claimed on the FCC Form 497 for a particular data month must be equal to the active subscribers counted on the first day of the following month.⁴ The first use of this method will be on September 1, 2016, when carriers count their active subscribers and report them on the FCC Form 497 for the August data month. Going forward, USAC will be better enabled to run reports to compare NLAD on the first of the month to the subscribers claimed on the FCC Form 497 and investigate differences.

2. *The vast majority of unverified or phantom subscribers are attributable to one reseller, [REDACTED], with a significant number attributable to another, [REDACTED]. For each month from October 2014 to the present, please provide the number of subscribers in the NLAD as well as the number of subscribers reported on relevant Forms 497 for these resellers in every state in which they offered Lifeline service.*

Attachment 1, [REDACTED] (*Confidential*) and Attachment 2, [REDACTED] (*Confidential*) provides the requested detailed subscriber information.

3. *The vast majority of unverified or phantom subscribers are attributable to one state, [REDACTED], with a significant number attributable to another, [REDACTED]. For each month from October 2014 to the present, please provide the number of subscribers in the NLAD as well as the number of subscribers reported on relevant Forms 497 for every Lifeline carrier that offers service in these states.*

² *Lifeline and Link Up Reform and Modernization, Lifeline and Link Up, Federal-State Joint Board in Universal Service, Advancing Broadband Availability Through Digital Literacy Training*, WC Docket No. 11-42, et al., Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656, 6788, para. 305 (2012) (*2012 Lifeline Reform Order*).

³ See also *Lifeline and Link Up Reform and Modernization, Telecommunications Carriers Eligible for Universal Service Support, Connect America Fund*, WC Docket No. 11-42, et al., Second Further Notice of Proposed Rulemaking, Order on Reconsideration, Second Report and Order, and Memorandum Opinion and Order, 30 FCC Rcd 7818 (2015) (*2015 Lifeline Reform Order*).

⁴ *Id.* at 7898-99, para. 243.

Commissioner Pai
August 15, 2016
Page 3

Attachment 3, [REDACTED] (Confidential) and Attachment 4, [REDACTED] (Confidential) provide the requested detailed information for those two states.

4. *Please describe what safeguards the program has in place, if any, to ensure that every subscriber claimed on a Form 497 was properly enrolled in the NLAD and assigned by the NLAD to that carrier. To the extent loopholes exist, please explain whether USAC could close those loopholes on its own or whether closing the loophole would require FCC action.*

The Lifeline program leverages its audit reviews to ensure that subscribers claimed on a FCC Form 497 are properly enrolled in the NLAD. Audit reviews, including the Beneficiary and Contributor Audit Program (BCAP) audits and Program Quality Assurance (PQA) assessments, conducted by the Internal Audit Division (IAD) compare the carrier's FCC Form 497 subscriber listing to NLAD to determine whether the carrier only claimed subscribers for reimbursement on the FCC Form 497 that were enrolled in NLAD. There are additional activities that could further improve the integrity of this process, which are already in progress. For example, as described in our response to the first question, the implementation of the standard snapshot date will allow USAC to more easily and consistently compare subscribers in NLAD to those claimed on the FCC Form 497 and follow up more frequently with the carriers. As we develop these processes, we anticipate being able to perform certain prioritized follow up in advance of processing a FCC Form 497 for reimbursement. In addition, the *2016 Lifeline Modernization Order* adopted a process to phase out the FCC Form 497, and instead creates a payment mechanism that relies upon the subscribers validated by the National Verifier, which will eliminate the existing disconnect between claims for reimbursement and the NLAD.⁵

5. *Please describe any investigations, audits or reviews that USAC has conducted from October 2014 to the present that compared a carrier's subscribers in the NLAD to the number of subscribers it reported on relevant Form(s) 497. Please explain whether any such investigations, audits, or reviews led to referrals to the relevant state commission, to the FCC's Inspector General, to the FCC's Enforcement Bureau, or to any other person at the FCC.*

Attachment 5, *Summary of Lifeline Program Audits (Confidential)*, provides a summary of audits conducted by IAD that included a comparison of the carrier's subscribers in NLAD to the number of subscribers reported on the FCC Form 497 and indicates if there was a referral to the FCC.

6. *You have previously explained that USAC compares NLAD data to Form 497 data only on a case-by-case basis. Could you please explain why that is? Would an automatic comparison help detect unverified or phantom subscribers better than case-by-case review? Would it be possible for USAC to compare such data*

⁵ See also *Lifeline and Link Up Reform and Modernization, Telecommunications Carriers Eligible for Universal Service Support, Connect America Fund*, WC Docket No. 11-42, et al., Third Report and Order, Further Report and Order, and Order on Reconsideration, 31 FCC Red 3962, 4015 para. 143 (2016) (*2016 Lifeline Modernization Order*).

Commissioner Pai
August 15, 2016
Page 4

automatically each month, flagging discrepancies for further investigation, audit, or review?

USAC compares NLAD data to the FCC Form 497 on only selected carriers. As described above in response to your first question, to evaluate identified variances, there is no automatic comparison mechanism



7. *Your June 14 letter revealed another problem with the NLAD: bloat. Some of the 16 wireless resellers surveyed had thousands or even tens of thousands of subscribers enrolled in the NLAD who were not claimed on their Forms 497. For example, [REDACTED] in [REDACTED] reported on average 15,931 fewer subscribers on its Forms 497 than it had enrolled in the NLAD. The existence of this bloat makes determining compliance with federal safeguards more difficult. That is because an unscrupulous reseller could increase its reimbursements substantially without subjecting new subscribers to the NLAD's safeguards -- the extra subscribers in the NLAD would mask the fact that the new subscribers claimed on a Form 497 may not in fact be eligible (or may not even exist) and give unscrupulous conduct the aura of legitimacy.*

Beyond the timing described in our response to the first question, which might cause a variance between NLAD and FCC Form 497 subscriber counts, there are legitimate reasons why a carrier may claim fewer subscribers on the FCC Form 497 than it enrolls in the NLAD system. One is related to non-usage procedures, where a subscriber identified as having not used their phone service may not be claimed for reimbursement. If this non-usage continues for 60 days, the subscriber must be notified and given an option to cure their non-usage within 30 days, or otherwise be de-enrolled from NLAD.⁶ Another reason a subscriber may not be claimed on the FCC Form 497 is due to the period between signing up for the service and having it actually activated. In these cases, a subscriber will be enrolled in NLAD, but may not be claimed until the service is actually made available. In addition, there are certain carriers that under-report subscribers in an abundance of caution so as not to make an overstatement on the FCC Form 497. For example, AT&T entered into a consent decree with the FCC Enforcement Bureau

⁶ 47 C.F.R. § 54.405(e)(3).

Commissioner Pai
August 15, 2016
Page 5

requiring it to under-report its subscribers by five percent.⁷ [REDACTED]

[REDACTED] We answer your specific questions below.

- i. *Please describe the procedures wireless resellers are supposed to follow to de-enroll subscribers from the NLAD.*

USAC's procedures are designed to facilitate de-enrollment based on the FCC's rules, which provide specific deadlines and processes for de-enrollments generally,⁸ de-enrollment upon the finding of a duplicate,⁹ de-enrollment for non-usage,¹⁰ de-enrollment for failure to recertify,¹¹ and de-enrollment requested by the subscriber.¹²

For de-enrollment from NLAD, the FCC rules require providers to transmit the de-enrollment information to NLAD within one business day.¹³ Carriers have three methods by which they can transmit a de-enrollment transaction to NLAD. First, the carrier may log-in to NLAD and select the de-enrollment option, then enter the subscriber's information and select de-enrollment type. After the correct subscriber is found in the database, the carrier will click on a "de-enroll" button to complete the process. Alternatively, many carriers submit their transactions, including new enrollments, transfers and de-enrollments, through a batch file process that is uploaded into NLAD and the transaction are processed together with a report provided to the carrier after it is complete. Finally, many carriers use the Application Programming Interface (API) system to transmit transactions, including de-enrollments, to interface with NLAD, which provides an option to delete a subscriber from the database. USAC provides detailed procedures on our website to assist carriers with submitting a de-enrollment transaction to NLAD.

- ii. *Please describe what safeguards exist, if any, to ensure that wireless resellers properly follow those de-enrollment procedures.*

The Lifeline program has several procedures to ensure that carriers follow the FCC mandated de-enrollment processes. In cases where USAC has identified duplicates through its own programmatic reviews, such as scrubbing of NLAD data, USAC de-enrolls the duplicates from NLAD at the conclusion of the process, and a list of the duplicates is provided to the carrier through NLAD for de-enrollment from their own systems. [REDACTED]

⁷ *AT&T Services, Inc., et al.*, Order, 30 FCC Rcd 3728 (Enforcement Bur. April 29, 2015).

⁸ 47 C.F.R. § 54.405(e)(1).

⁹ 47 C.F.R. § 54.405(e)(2).

¹⁰ 47 C.F.R. § 54.405(e)(3).

¹¹ 47 C.F.R. § 54.405(e)(4).

¹² 47 C.F.R. § 54.405(e)(5).

¹³ 47 C.F.R. § 54.404(b)(10).

Commissioner Pai
August 15, 2016
Page 6

- iii. *Please describe further any investigations, audits, or review that USAC has conducted from October 2014 to the present to verify that wireless resellers are properly de-enrolling subscribers and to remove the non-subscriber bloat from the NLAD.*

Attachment 6, Summary of Lifeline Program Wireless Audits (Confidential), provides a detailed list of the audits USAC had completed of wireless Lifeline program providers, which included a review of de-enrollment of subscribers.

USAC remains committed to ensuring the Universal Service Fund is protected from waste, fraud, and abuse and looks forward to continuing to work with the FCC to ensure that contributions from consumers are disbursed in accordance with FCC rules and regulations. Please let us know if you need any additional information or have any questions about the responses provided.

Sincerely,



Chris Henderson
Chief Executive Officer
Universal Service Administrative Company

Enclosure

Attachment 1 Redacted in its Entirety

Attachment 2 Redacted in its Entirety

Attachment 3 Redacted in its Entirety

Attachment 4 Redacted in its Entirety

Attachment 5 Redacted in its Entirety

Attachment 6 Redacted in its Entirety

Nicholas Degani

From: Kristina McNeff <[REDACTED]@usac.org>
Sent: Friday, September 02, 2016 5:56 PM
To: Nicholas Degani
Cc: Vickie Robinson; Michelle Garber
Subject: Follow up from Call with USAC Legal
Attachments: Attachment 1 - AT&T Letter.pdf; Attachment 2 - De-enrollment Audit Procedures (Confidential).pdf

Follow Up Flag: Follow up
Flag Status: Flagged

Dear Nick,

Thank you for the opportunity to provide additional information to supplement USAC's August 15, 2016 letter to Commissioner Pai. We have summarized the questions we discussed during our August 23 call below, together with our responses.

- 1(a). In USAC's response to question 1, USAC states that there "are legitimate reasons why the subscriber count information included on a carrier's FCC Form 497 may be higher than the information reflected in the NLAD." What are the legitimate reasons? The examples cited don't provide an explanation of why the 497 would be higher than the NLAD counts, even accounting for short-term subscribers.**

As discussed in our previous response, the primary, legitimate reason for variances between NLAD and the FCC Form 497 subscriber information would be an issue of timing. However, timing would only account for minor variances and the use of the snapshot date going forward will help to eliminate even those minor differences. USAC recognizes there are variances that are not likely related to timing, and that those variances are likely not legitimate. When USAC identifies these types of anomalies through its routine reviews and data analysis, we refer such information to the FCC's Enforcement Bureau and Office of Inspector General for further review and investigation. With the implementation of the uniform snapshot date on September 1, USAC looks forward to conducting more consistent and automated data comparisons between the FCC Form 497 and NLAD. This process will be free of the majority of timing differences, allowing for prioritized review and follow up.

- 1(b). Carriers can report mid-month to mid-month subscribers. If that happens, wouldn't NLAD reflect the subscriber in both months? In that case, NLAD should still be higher than the 497s.**

For the purposes of this analysis, USAC described that it included any active subscriber that was associated with a carrier within a calendar month. However, not all carriers claim subscribers served on a calendar month basis, and may use a mid-month to mid-month basis. For example, a subscriber might be de-enrolled from NLAD on January 25, but be claimed by the carrier for reimbursement in February because the subscriber was included in a mid-January to mid-February cycle. However, NLAD would not contain that subscriber in the calendar month of February. As a result, the February FCC Form 497 would include that subscriber, but USAC's February NLAD data count would not. This is merely an additional timing scenario, however, and as noted above, it does not generally justify any significant variances in reporting.

- 2. In USAC's response to question 7 regarding non-usage procedures, USAC states that if a "non-usage continues for 60 days, the subscriber must be notified and given an option to cure their non-**

usage within 30 days, or otherwise be de-enrolled from NLAD.” At what point do carriers have to stop claiming subscribers for non-usage – during the 60 days, at de-enrollment or during some other time period?

Consistent with Section 54.405(e)(3) of the Commission’s rules, if a subscriber fails to use the Lifeline program service for 60 consecutive days, the relevant carrier must provide that subscriber with 30 days’ notice of possible termination. In order to determine when a subscriber could be claimed during this process, USAC obtained guidance from the FCC. Pursuant to this guidance, where a carrier notifies a subscriber on the 61st day of non-usage, the carrier should not claim the subscriber on the FCC Form 497 for the time period covering days 61 to 90.

Section 54.404(b)(10) requires carriers to remove subscribers from NLAD within one business day of de-enrollment. Because a subscriber may cure non-usage by using the phone before the 90th day, the carrier may legitimately wait to remove the subscriber from NLAD until the 91st day. As such, it is possible for a subscriber to drop off of the FCC Form 497, but remain in NLAD until the completion of one additional month.

- 3. Also with respect to question 7, USAC states that “AT&T entered into a consent decree with the FCC Enforcement Bureau requiring it to under-report its subscribers by five percent.” Please explain what information USAC receives from AT&T about their monthly filings and reductions. Are there any letters, explanations, certifications, etc.? Do you verify the reduction?**

Each month, USAC receives an email from AT&T with a copy of a letter addressed to Jeffrey Gee, Chief, Investigations and Hearing Division Enforcement Bureau. The letter states that AT&T performs a monthly statistically significant sample of the eligibility records for new Lifeline subscribers, and they confirm whether it has complete, current, and accurate eligibility certification for each subscriber. AT&T also compares the sample of subscribers to the NLAD database to confirm eligibility. The lower and upper limits of the monthly and weighted average error rates reflecting a 95% confidence interval are determined and provided as an attachment to the letter. The submitted FCC Form 497 reflects the application of the upper limit of the weighted average error rates to the total number of retail subscribers, reducing the total claim for each study area code by the respective error rates. Attachment 1, AT&T Letter, provides the most current letter received from the carrier. Because this is an ongoing matter before the FCC, USAC does not take any separate action to verify the reduction in claimed subscribers.

- 4. With respect to question 7(iii), please explain what audit procedures are in place to properly verify de-enrollment.**

Attachment 2, De-enrollment Audit Procedures (Confidential), provides a detailed description of the procedures used by USAC’s Internal Audit Division to verify the de-enrollment of subscribers from NLAD.

Please do not hesitate to contact us should you require any additional clarification or explanation.

Kind regards,
Kristina

Kristina G. McNeff
Deputy General Counsel

USAC

d.usac.org | www.usac.org

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Attachment 1 Redacted in Its Entirety

Attachment 2 Redacted in its Entirety



Ajit Pai
Commissioner

FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, DC 20554

September 7, 2016

Mr. Chris Henderson
Chief Executive Officer
Universal Services Administrative Company
2000 L Street NW, Suite 200
Washington, DC 20036

Dear Mr. Henderson,

Thank you for your August 15 letter regarding phantom subscribers as well as your continued and diligent work to root out the waste, fraud, and abuse that has riddled the Universal Service Fund's Lifeline program since wireless resellers began participating in this program in earnest in 2009.

Although much of my investigation thus far has focused on the exploits of Total Call Mobile and other wireless resellers that appear to have employed similar practices, a recent enforcement action has raised another concern: the validation of subscribers for enhanced subsidies.

As you know, the Lifeline program authorizes an enhanced subsidy (up to \$25 per month) for eligible residents of Tribal lands, which comes on top of the standard \$9.25 per month subsidy. The enhanced subsidy offers a tremendous incentive for unscrupulous carriers to try to exploit our rules, and we know that some have. Icon Telecom, for example, claimed tens of thousands of phantom customers in Oklahoma to profit from the enhanced subsidies on Tribal lands before its scheme was ultimately uncovered and Icon's owner pleaded guilty to money laundering.

More recently, the FCC settled an investigation into Blue Jay Wireless's practices in Hawaii. According to the FCC's official release, Blue Jay had claimed subscribers as eligible for the enhanced subsidy in November 2013 and added thousands of such subscribers to its rolls. Even though Blue Jay collected every subscriber's address, it did not verify whether those addresses were on Tribal lands; in fact, it sought enhanced subsidies even when a subscriber's address made him/her clearly ineligible. By 2014, the Hawaii Public Utilities Commission staff had discovered that Blue Jay was claiming more subscribers than the total number of households in the Hawaiian Home Lands! Thanks to the work of the Hawaii Public Utilities Commission and FCC staff, we were able to recover \$2 million in wrongful disbursements to Blue Jay.

The recent consent decree with Blue Jay suggests that there may be substantial gaps in our federal safeguards for Lifeline. To that end, I request that you provide my office with the following information:

1. Our rules state that the enhanced subsidy can only be received by an "eligible resident of Tribal lands," meaning a qualifying low-income consumer "living on Tribal lands." 47 C.F.R. § 54.400(e). Does USAC have a map of qualifying Tribal lands that it uses to verify eligibility for the enhanced subsidy? Does USAC share that map with wireless resellers so they can verify whether they are serving Tribal lands? Does USAC share that map with state commissions responsible for overseeing wireless resellers in the Lifeline program or the FCC? Please include a copy of any maps USAC uses for verifying eligibility for the enhanced subsidy.

2. One safeguard required by our rules is that a subscriber must certify under penalty of perjury to residency on Tribal lands. 47 C.F.R. § 54.410(d)(3). Do wireless resellers retain these certifications? Do they submit them to USAC, and if so, when? What other federal safeguards, if any, are there to ensure that every subscriber receiving an enhanced subsidy does in fact live on Tribal lands before USAC disburses the enhanced subsidy?
3. Must a wireless reseller record a subscriber's eligibility for an enhanced subsidy in the National Lifeline Accountability Database (NLAD)? If so, does the NLAD compare the subscriber's inputted address against a map of Tribal lands to ensure that only subscribers actually living on Tribal lands receive the enhanced subsidy? If not, why not?
4. What is the relationship, if any, between a subscriber's eligibility for enhanced support and the NLAD's Tribal Flag, which you highlighted in your May 25 letter?
5. Please describe any investigations, audits, or reviews that USAC has conducted from October 2014 to the present that examined whether a wireless carrier sought enhanced subsidies only for eligible subscribers living on Tribal lands.
 - a. Please explain the steps USAC has taken in such investigations, audits, or reviews to verify eligibility for the enhanced subsidy. Does USAC check whether a subscriber has appropriately certified that he or she lives on Tribal lands? Does USAC verify that the subscriber's address is actually located on Tribal lands?
 - b. Please explain whether any such investigations, audits, or reviews led to referrals to the relevant state commission, to the FCC's Inspector General, to the FCC's Enforcement Bureau, or to any other person at the FCC.
6. As mentioned above, the Hawaiian Public Utilities Commission detected that Blue Jay was enrolling more subscribers than households in the Hawaiian Home Lands. What automatic checks does USAC have in place to detect similar conduct?
7. In June 2015, the FCC changed what parts of Oklahoma qualified as Tribal lands for purposes of the enhanced subsidy. Effective June 8, 2016, subscribers in Oklahoma must live with the boundaries reflected in the Oklahoma Historical Map or the Cherokee Outlet to qualify for the enhanced subsidy on a going-forward basis. The FCC has made maps (digital shapefiles) available for wireless resellers and others to use to enact this change.
 - a. What process does USAC have in place to ensure that wireless resellers do not continue to claim enhanced subsidies for subscribers in Oklahoma who no longer qualify under this change?
 - b. Can USAC determine whether each Oklahoma subscriber in the NLAD now resides on Tribal lands (and therefore qualifies for the enhanced subsidy)? If not, what other information would USAC need to make such a determination?
 - c. Please provide the following information for the ten largest wireless resellers in Oklahoma for each month from February 2016 to the present:
 - i. The number of subscribers claimed by the reseller,
 - ii. Of those, the number receiving an enhanced subsidy,
 - iii. The maximum number of subscribers enrolled in the NLAD during a given month for the reseller,
 - iv. Of those, the number whose address showed that they lived on Tribal lands (for June, please use both definitions of Tribal lands).

I appreciate USAC's continued work to protect American taxpayers and safeguard the Universal Service Fund. Given the millions in taxpayer funds that have already gone to waste, I respectfully ask that you respond with the requested information by September 21, 2016. If you have any questions, please feel free to contact Nicholas Degani in my office at (202) 418-2000.

Sincerely,

A handwritten signature in black ink, appearing to read "Ajit Pai".

Ajit Pai
Commissioner
Federal Communications Commission



Confidential, Not for Public Inspection for Disclosure

September 21, 2016

The Honorable Ajit Pai
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Dear Commissioner Pai:

Thank you for your letters concerning the Universal Service Fund's (USF) Lifeline program. The Universal Service Administrative Company (USAC) is dedicated to continuing to working with the Federal Communications Commission (FCC or Commission) to combat waste, fraud and abuse in the USF programs, and we welcome the continued dialogue regarding the Lifeline program, including now enhanced Lifeline support for residents of Tribal lands.¹

Below we provide responses to the questions outlined in your September 7, 2016 letter, along with supporting attachments detailing the data and information you requested.

1. *Our rules state that the enhanced subsidy can only be received by an "eligible resident of Tribal lands," meaning a qualifying low-income consumer "living on Tribal lands." 47 C.F.R. § 54.400(e). Does USAC have a map of qualifying Tribal lands that it uses to verify eligibility for the enhanced subsidy? Does USAC share that map with wireless resellers so they can verify whether they are serving Tribal lands? Does USAC share that map with state commissions responsible for overseeing wireless resellers in the Lifeline program or with the FCC? Please include a copy of any maps USAC uses for verifying eligibility of the enhanced subsidy.*

In its 2015 Lifeline Reform Order, the FCC clarified the boundaries of the former reservations of Oklahoma for enhanced Tribal support in that state.² In so doing, it provided a map, and later issued shapefiles,³ for use in comparing current addresses to the Oklahoma Tribal boundaries. USAC has provided a link on its website to the FCC's Oklahoma map for use by carriers, states, and others. While the FCC has not provided maps to define the boundaries of

¹ 47 C.F.R. § 47.54.400(e) (defining "Tribal lands" for purposes of the Lifeline program).

² See *Lifeline and Link Up Reform and Modernization, Telecommunications Carriers Eligible for Universal Service Support, Connect America Fund*, WC Docket No. 11-42, et al., Second Further Notice of Proposed Rulemaking, Order on Reconsideration, Second Report and Order, and Memorandum Opinion and Order, 30 FCC Rcd 7818, 7903-07, paras. 257-67 (2015) (2015 Lifeline Reform Order).

³ See Oklahoma Enhanced Lifeline Support Maps, FCC website, available at <https://www.fcc.gov/general/oklahoma-enhanced-lifeline-support-maps>.

Commissioner Pai
 September 21, 2016
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Tribal lands in other states for enhanced Lifeline support, we note that there are other maps of federally recognized Tribal areas, such as those provided by U.S. Census or U.S. Geological Survey, that USAC understands anecdotally are used by carriers to verify consumer addresses eligible for enhanced Tribal support.

2. *One safeguard required by our rules is that a subscriber must certify under penalty of perjury to residency on Tribal lands. 47 C.F.R. §54.410(d)(3). Do wireless resellers retain these certifications? Do they submit them to USAC, and if so, when? What other federal safeguards, if any, are there to ensure that every subscriber receiving an enhanced subsidy does in fact live on Tribal lands before USAC disburses the enhanced subsidy?*

The FCC noted in the *2012 Lifeline Reform Order* that it is “often difficult, if not impossible, to determine” the exact location of Tribal addresses, and that self-certification of residency within Tribal lands helps to further the goal of providing universal service in those locations.⁴ All carriers are required to retain subscriber certification forms, including certification forms for any subscriber who will receive enhanced Lifeline support,⁵ and, as you note, those certification forms must be signed under penalty of perjury pursuant to the Commission’s rules.⁶ Carriers are required to provide copies of those forms to USAC or the FCC upon request, including as part of an audit.⁷

In general, any subscriber who is suspected to be ineligible for his or her benefit must be notified by the carrier and provide documentation to resolve the potential ineligibility, as required by section 54.405(e)(1) of the FCC’s rules.⁸ At USAC, trend reports are produced in advance of the monthly disbursement cycle to identify any unusual variances in carrier claims for support, including enhanced Tribal support. We are not aware of any other federal agency rules or requirements related to the provision of Lifeline benefits on Tribal lands.

3. *Must a wireless reseller record a subscriber’s eligibility for an enhanced subsidy in the National Lifeline Accountability Database (NLAD)? If so, does the NLAD compare the subscriber’s inputted address against a map of Tribal lands to ensure that only subscribers actually living on Tribal lands receive the enhanced subsidy? If not, why not?*

Currently, carriers enrolling subscribers into NLAD may designate whether a subscriber is receiving the enhanced Tribal Lifeline support, using the Lifeline Tribal Benefit field. At this time, the Lifeline Tribal Benefit field is an optional designation; however, USAC is changing it

⁴ See *Lifeline and Link Up Reform and Modernization*, et al. WC Docket No. 11-42, et al., Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656, 6728, para. 165 (2012) (*2012 Lifeline Reform Order*).

⁵ 47 C.F.R. § 54.417.

⁶ 47 C.F.R. § 54.410(d)(3).

⁷ 47 C.F.R. §§ 54.417, 54.707.

⁸ 47 C.F.R. § 54.405(e)(1).

Commissioner Pai
 September 21, 2016
 Page 3

to a mandatory field that can be used to identify subscribers receiving enhanced Lifeline support.⁹

[REDACTED]

In working through these system improvement processes, USAC will coordinate with the FCC to determine whether the NLAD system should prevent enrollment of certain subscribers, or should alert the carrier to potential ineligibility for Tribal support and request that they take additional steps.

4. *What is the relationship, if any, between a subscriber's eligibility for enhanced support and the NLAD's Tribal Flag, which you highlighted in your May 25 letter?*

The "Tribal Flag" in NLAD refers to the subscribers' address while the Lifeline Tribal Benefit field is used to designate if a subscriber is receiving the enhanced benefit. As such, our response relates to the Lifeline Tribal Benefit field.

Today, disbursements are not paid based on the Lifeline Tribal Benefit field in the NLAD system. As a result, this field in NLAD is not directly related to the number of subscribers who receive enhanced Lifeline support. USAC expects these numbers to be the same, but has found in its reviews of NLAD data that such is not always the case. Specifically, USAC has typically found fewer Tribal subscribers recorded in NLAD for a given carrier than are claimed on the FCC Form 497. Through its analysis, USAC believes the root cause of this inconsistency may be that when inputting information into NLAD, the Lifeline Tribal Benefit field defaults to non-Tribal unless changed by the carrier, and because the carrier does not rely on the accuracy of this designation for disbursement purposes, it may overlook the field. USAC is developing a change to NLAD to require the carrier to affirmatively choose either Tribal or non-Tribal status for each subscriber in the Lifeline Tribal Benefit field, and expects this system change to be implemented as early as next month. Moreover, with the implementation of the National Verifier, disbursements will be paid automatically based on data retained in the NLAD or National Verifier systems, rather than through separate claims submitted by carriers. This, combined with the potential geospatial capabilities noted above, will create a stronger set of controls around enhanced Lifeline support.

5. *Please describe any investigations, audits, or reviews that USAC has conducted from October 2014 to the present that examined whether a wireless carrier sought enhanced subsidies only for eligible subscribers living on Tribal lands.*

⁹ We would like to note that this Lifeline Tribal Benefit field is different than the Tribal Address flag. The Lifeline Tribal Benefit field is used by the carrier to indicate whether the subscriber is receiving the enhanced Tribal Lifeline benefit while the Tribal address flag is used when a Tribal address cannot be automatically verified through NLAD's address checking integration with the U.S. Postal Service.

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- a. *Please explain the steps USAC has taken in such investigations, audits, or reviews to verify eligibility for the enhanced subsidy. Does USAC check whether a subscriber has appropriately certified that he or she lives on Tribal lands? Does USAC verify that the subscriber's address is actually located on Tribal lands?*

Attachment 1, Tribal Procedures for Lifeline BCAP Audits (Highly Confidential) provides detailed information on the multiple steps undertaken by USAC's Internal Audit Division (IAD) to verify eligibility as part of the Beneficiary and Contributors Audit Program (BCAP).

- b. *Please explain whether any such investigations, audits, or reviews led to referrals to the relevant state commission, to the FCC's Inspector General, to the FCC's Enforcement Bureau, or to any other person at the FCC.*

Attachment 2, Lifeline Wireless BCAP Audits (Confidential) provides a list of the BCAP audits undertaken during the relevant time period that included Tribal eligibility testing. We note that none of the BCAP audits that examined whether a wireless carrier sought enhanced Lifeline support only for eligible subscribers living on Tribal lands raised concerns of waste, fraud, or abuse sufficient to refer to state commissions or the FCC.

6. *As mentioned above, the Hawaiian Public Utilities Commission detected that Blue Jay was enrolling more subscribers than households in the Hawaiian Home Lands. What automatic checks does USAC have in place to detect similar conduct?*

[REDACTED]

7. *In June 2015, the FCC changed what parts of Oklahoma qualified as Tribal lands for purposes of the enhanced subsidy. Effective June 8, 2016, subscribers in Oklahoma must live within the boundaries reflected in the Oklahoma Historical Map or the Cherokee Outlet to qualify for the enhanced subsidy on a going forward basis. The FCC has made maps (digital shapefiles) available for wireless resellers and others to use to enact this change.*
- a. *What process does USAC have in place to ensure that wireless resellers do not continue to claim enhanced subsidies for subscribers in Oklahoma who no longer qualify under this change?*

Since the Tribal boundaries in Oklahoma were clarified by the FCC, USAC has been monitoring Tribal subscribership trends closely. In the first disbursement cycle following the effective date of the Oklahoma map, enhanced Tribal support claims in Oklahoma dropped by

Commissioner Pai
September 21, 2016
Page 5

approximately \$1.9 million, indicating that subscribers were being converted from Tribal to non-Tribal in carrier claims. We also note that, as described in response to Question No. 5(a) and the related Attachment, USAC's BCAP audits evaluate whether a carrier is designated to provide support in Tribal lands and validates that it is appropriate for the carrier to obtain enhanced Lifeline support claims.

- b. *Can USAC determine whether each Oklahoma subscriber in the NLAD now resides on Tribal lands (and therefore qualifies for the enhanced subsidy)? If not, what other information would USAC need to make such a determination?*

[REDACTED]

- c. *Please provide the following information for the ten largest wireless resellers in Oklahoma for each month from February 2016 to the present:*
- i. *The number of subscribers claimed by the reseller,*
 - ii. *Of those, the number receiving an enhanced subsidy,*
 - iii. *The maximum number of subscribers enrolled in the NLAD during a given month for the reseller,*
 - iv. *Of those, the number whose address showed that they lived on Tribal lands (for June, please use both definitions of Tribal lands).*

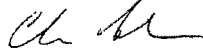
Attachment 3, *Wireless Reseller Tribal Data (Confidential)*, provides information responsive to items (i), (ii), and (iii). Please note that for item (iii), we were not certain whether your request referred to the total subscribership in NLAD or the total Tribal subscribership in NLAD, so we have included data for both sets of subscribers. Upon reviewing the data, you will notice that the total Tribal subscribers receiving the Tribal enhanced Lifeline support (based on the FCC Form 497) varies from the total subscribers listed as receiving the enhanced benefit in NLAD (based on an affirmative response in the Lifeline Tribal Benefit field).

[REDACTED]

Commissioner Pai
September 21, 2016
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USAC remains committed to ensuring the Universal Service Fund is protected from waste, fraud, and abuse and looks forward to continuing to work with the FCC to ensure that contributions from consumers are disbursed in accordance with FCC rules and regulations. Please let us know if you need any additional information or have any questions about the responses provided.

Sincerely,



Chris Henderson
Chief Executive Officer
Universal Service Administrative Company

Enclosure



OFFICE OF
THE CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

July 11, 2017

Ms. Vickie Robinson
Acting Chief Executive Officer and General Counsel
Universal Service Administrative Company
700 12th St NW, Suite 900
Washington, DC 20005

Dear Ms. Robinson,

Last year, I sought USAC's aid in combating the waste, fraud, and abuse that has riddled the Universal Service Fund's Lifeline program since wireless resellers began participating in this program in earnest in 2009. I appreciate your responsiveness to those inquiries.

As you know, I was not the only one concerned with waste, fraud, and abuse in the program. In parallel with my office's investigation, the FCC's Office of Inspector General has been reviewing the program, its Enforcement Bureau has been investigating specific instances of potential fraud and abuse, and its Wireline Competition Bureau and Office of the Managing Director have been studying how to improve programmatic safeguards. In addition, the nonpartisan Government Accountability Office recently issued a report stemming from its thorough review of the program and the National Lifeline Accountability Database (NLAD).

In light of these investigations and their findings, I believe immediate action is warranted. We must be vigilant in stopping abuse of the Universal Service Fund. American taxpayers demand, and deserve to know, that the money they contribute each month to the Fund is not wasted or put to fraudulent use by unscrupulous eligible telecommunications carriers (ETCs).

Please implement the following safeguards to mitigate the risk of waste, fraud, and abuse as soon as possible:

1. *Ineligible Subscribers*.—GAO was “unable to confirm whether 1,234,929 individuals out of the 3,474,672 that [it] reviewed, or 36 percent, participated in the qualifying benefit programs they stated on their Lifeline enrollment applications or were recorded as such by Lifeline providers.” That translates into approximately \$137 million a year in potentially wasted funds, which GAO said “likely understate[s]” the magnitude of the problem given that GAO only reviewed applicants claiming eligibility through the Supplemental Nutritional Assistance Program (SNAP), Medicaid, and the Supplemental Security Income (SSI) program in certain states.
 - a. USAC shall identify the top ten ETCs (on a holding company basis) with the highest number of potentially ineligible subscribers according to GAO's study. USAC shall audit each of these ETCs to determine whether they are properly verifying the eligibility of their subscribers.
 - b. Every month over the course of the next year, USAC shall review a statistically valid sample of subscribers enrolled or recertified by each of these ten ETCs in the prior month to determine whether those subscribers are in fact eligible to participate in the Lifeline program. USAC's sampling should focus on qualifying programs and states

with the highest potential risk of ineligible subscribers. USAC shall require each ETC to de-enroll any subscribers whose eligibility cannot be verified.

- c. USAC shall require all ETCs with GAO-identified potentially ineligible subscribers to verify the eligibility of such subscribers and to de-enroll from the Lifeline program any subscribers whose eligibility the ETC cannot properly verify.
 - d. USAC shall refer the substantial enrollment or recertification of ineligible subscribers by any ETC to the Commission's Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.
2. *Oversubscribed Addresses.*—GAO identified 59 instances where a single address was associated with 500 or more subscribers, including "a single address . . . associated with 10,000 separate subscribers, all receiving Lifeline benefits through the same Lifeline provider. This address could not be verified by the U.S. Postal Service address verification system [the GAO] consulted." Although there may be a reasonable explanation in some circumstances (e.g., the address is that of a large homeless shelter), the Total Call Mobile case revealed oversubscribed addresses are also an opportunity for abuse.
- a. USAC shall identify and review every address associated with 500 or more subscribers. USAC shall require all relevant ETCs to de-enroll any subscribers that cannot verify their residence at a location that could reasonably accommodate them as well as any subscribers that cannot confirm they are "independent economic households" (within the meaning of the FCC's rules) from other subscribers at that address.
 - b. Every quarter going forward, beginning with the third quarter of 2017 (July-September), USAC shall review a statistically valid sample of addresses associated with 25 or more subscribers. USAC shall require all relevant ETCs to de-enroll any subscribers that cannot verify their residence at a location that could reasonably accommodate them as well as any subscribers that cannot confirm they are independent economic households from other subscribers at that address.
 - c. USAC shall recapture any improper payments associated with such de-enrolled subscribers from the relevant ETC(s).
 - d. USAC shall explore automating the process of detecting oversubscribed addresses in the NLAD.
 - e. USAC shall refer the substantial enrollment or recertification of individuals at oversubscribed addresses in the Lifeline program to the Commission's Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.
3. *Phantom Subscribers.*—My office's investigation revealed in August 2016 that one ETC, [REDACTED], claimed support for 22,325 more subscribers (on average) than it had enrolled in the NLAD each month for more than a year. The following month, [REDACTED] notified the FCC that it had erroneously received over \$13 million in Lifeline funds. Independently, the Inspector General has identified that the lack of correlation between NLAD and support claims created an "increased risk that federal funds are provided to carriers for Lifeline-supported services to ineligible subscribers, subscribers receiving multiple Lifeline-supported services, or household receiving multiple Lifeline-supported services that are enrolled in NLAD; and fictitious subscribers that are not enrolled in NLAD."

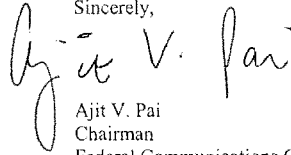
- a. USAC shall develop a process to identify ETCs with material discrepancies that cannot be adequately explained between the NLAD and claimed support on their Form 497 submissions.
 - b. Every quarter going forward, USAC shall direct ETCs with discrepancies that cannot be adequately explained to correct their NLAD listings and Form 497 submissions as appropriate.
 - c. As part of USAC's audits of ETCs, USAC shall check any discrepancies between the NLAD and the claimed support of the audited ETC. USAC shall require such ETC to correct any material differences in their NLAD listings and Form 497 submissions as appropriate.
 - d. USAC shall recapture any improper payments associated with such de-enrolled subscribers from the relevant ETC(s).
 - e. USAC shall explore automating the process of comparing NLAD listings and Form 497 submissions.
 - f. USAC shall refer ETCs with material differences between their NLAD listings and their Form 497 submissions to the Commission's Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.
4. *Deceased Subscribers.*—GAO identified 6,378 individuals who enrolled in Lifeline, recertified eligibility, or both after they were reported dead. Each such individual was recorded as deceased in the Social Security Master Death Index more than one year before enrollment or recertification.
- a. USAC shall require the relevant ETCs to immediately de-enroll the deceased subscribers identified by GAO and recover improper Lifeline payments associated with these subscribers.
 - b. Every quarter going forward, USAC shall check a statistically valid sample of subscribers enrolled or recertified during the previous quarter against the Social Security Master Death Index. The sampling should be risk-based, including a focus on subscriber age groups with a higher potential risk of mortality. USAC shall require the relevant ETCs to de-enroll any deceased individuals. USAC shall use the results to determine whether additional testing accompanied by de-enrollment is warranted.
 - c. USAC shall recapture any improper payments associated with such de-enrolled subscribers from the relevant ETC(s).
 - d. As part of USAC's audits of ETCs, USAC shall check at least a sample of subscribers against the Social Security Master Death Index. USAC shall require the relevant ETCs to de-enroll any deceased individuals.
 - e. USAC shall explore automating the process of comparing subscriber records against the Social Security Master Death Index at the time of subscriber enrollment or recertification.
 - f. USAC shall refer ETCs with the substantial enrollment or recertification of deceased individuals in the Lifeline program to the Commission's Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.

5. *Exact Duplicates.*—GAO’s analysis of NLAD revealed 5,510 potential cases involving internal duplicate subscribers—that is, cases in which the first name, last name, date of birth, last 4 digits of a Social Security Number, street address, and zip code of one subscriber exactly matched that of another subscriber in the program. Although USAC reported that it scrubbed the NLAD record to identify additional duplicates in May 2015, safeguards should be in place to protect NLAD from new exact duplicate subscriber entries.
 - a. USAC shall continue requiring ETCs to verify the identities of the ETCs’ potentially duplicate subscribers.
 - b. As part of USAC’s audits of ETCs, USAC shall review a statistically valid sample of transferred subscribers to verify their old subscriptions have been removed in the NLAD from the subscriber’s prior carrier.
 - c. For any new subscriber who can provide proof of address and identity but cannot enroll in the program because someone else has already enrolled using his or her address or personal information, USAC shall request that the existing service using that personal information or address should be discontinued.
 - d. USAC shall recapture any improper payments associated with such de-enrolled subscribers from the relevant ETC(s).
 - e. USAC shall explore automating the process of detecting exact duplicates in the NLAD.
 - f. USAC shall refer ETCs with the substantial enrollment or recertification of exact duplicates in the Lifeline program to the Commission’s Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.
6. *Sales Agent Accountability.*—The Inspector General has determined that the payment structure that many Lifeline resellers use to compensate sales agents can create substantial incentives for fraud. Further, the Inspector General has found that sales agents are the primary drivers of inappropriate data manipulation in the Lifeline program.
 - a. USAC shall require each sales agent to register with USAC with sufficient information so that USAC can verify the agent’s identity and determine the ETC(s) he or she works for. Each registered sales agent shall receive a unique identifier that must be used for all such agent’s interactions with the NLAD.
 - b. USAC shall adjust the NLAD to lock sales agents out of the system for a set period of time after too many invalid subscriber entry attempts. USAC shall determine the appropriate parameters for this lock-out system, and may escalate the length of any lock-out period based on repeated misuse. USAC may also determine that certain sales agents must be locked out of the system pending further investigation.
 - c. USAC shall determine how best to incorporate the inclusion of sales agent registration data and unique identifiers into its existing audit programs or whether special audits of sales agents would further reduce waste, fraud, and abuse within the Lifeline program.
 - d. USAC shall refer any substantial enrollment or recertification of ineligible subscribers by particular sales agents, as well as any program violations by sales agents, to the Commission’s Office of Inspector General for evaluation as to whether civil or criminal action is appropriate and to the Enforcement Bureau for administrative action and remedies.

Thank you for your attention to these issues. I would appreciate a report on USAC's implementation of these safeguards by August 8, 2017. I also ask that you share this letter with the USAC Board of Directors, whom I trust will work with you to implement these recommendations. I would also welcome any further recommendations the Board may have to tighten federal safeguards for this program. In addition, I appreciate the joint project between USAC and FCC staff to review the information technologies used by USAC to carry out its mission and how they could be improved. Once that review is complete, I may follow up with additional requests to curb waste, fraud, and abuse in the Lifeline program.

Again, I appreciate USAC's continued work to protect the American taxpayer and safeguard the Universal Service Fund and am grateful for your leadership of the company.

Sincerely,

A handwritten signature in black ink, reading "Ajit V. Pai". The signature is fluid and cursive, with the first name "Ajit" and last name "Pai" being more prominent than the middle initial "V".

Ajit V. Pai
Chairman
Federal Communications Commission



August 8, 2017

The Honorable Ajit V. Pai
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: *USAC's Lifeline Safeguard Implementation Plan*

Dear Chairman Pai,

Thank you for your July 11, 2017 letter concerning the Universal Service Fund's (USF) Lifeline program. The Universal Service Administrative Company (USAC) is dedicated to combatting waste, fraud, and abuse in the USF programs. USAC has had ongoing dialogue with your office and other Offices and Bureaus within the Federal Communications Commission (FCC or Commission), as well as the Government Accountability Office (GAO), as part of the collective efforts to strengthen the Lifeline program. I welcome and value the opportunity to continue working with the Commission and other stakeholders in furtherance of the important mission of universal service.

In May 2017, the GAO released a report outlining actions needed to address risks in the Lifeline program. In light of your ongoing investigation of the Lifeline program, in parallel with reviews, investigations, and studies being undertaken by the FCC's Offices of Inspector General and Managing Director and the Enforcement and Wireline Competition Bureaus, as well as the recent GAO report, you have directed USAC to implement specific safeguards to mitigate the risk of waste, fraud and abuse in the program "as soon as possible." You also invited USAC to work with our Board of Directors (USAC Board or Board) to provide further recommendations to tighten federal safeguards in the program.

The attached *USAC Report on Lifeline Safeguards Implementation* provides USAC's plan to implement the Lifeline safeguards outlined in your letter covering the following categories: (1) Ineligible Subscribers, (2) Oversubscribed Addresses, (3) Phantom Subscribers, (4) Deceased Subscribers, (5) Exact Duplicates, and (6) Sales Agent Accountability. For each category, USAC provides some context for its existing processes and internal controls, then provides a detailed description of its forthcoming activities to implement your directives. Also attached is the *Lifeline Safeguard Milestones and Activity Tracker (Safeguards Tracker)*, which provides the Commission with a comprehensive timeline of the future actions in this area and detailed completion dates for important milestones.

I note that at the time of the exit conference with GAO last Fall and in our subsequent communications, including correspondence in connection with review of the GAO's draft report earlier this year, USAC repeatedly requested the data analysis performed by GAO that formed the basis of its findings, but it was not provided. Upon receipt of your letter, USAC engaged with the

Chairman Ajit V. Pai
August 8, 2017
Page 2

GAO staff again to obtain the data analysis that formed the basis for your recommendations and directives. USAC staff has communicated with GAO weekly to obtain updates on the status of our request, keeping the Wireline Competition Bureau and the Office of Managing Director informed of USAC's communications with the GAO. Most recently, on August 3, GAO staff indicated it would be at least a few more weeks before any information would be shared. Once we receive the requested information, we will immediately notify the FCC and begin to review the underlying data. USAC will provide an additional response that updates you on our data analysis of the GAO analytics within 30 days of receipt and will then provide updates every quarter thereafter. The *Safeguards Tracker* identifies the items that are dependent on the GAO data; however, USAC will undertake multiple actions immediately and independent of the GAO data.

I have also included a third attachment, *Lifeline Supplemental Recommendations*, which provides additional recommendations for safeguarding the Lifeline program. These recommendations are informed by recent experiences leveraged from our work to stand up the National Lifeline Eligibility Verifier (National Verifier) and additional strides that USAC has made in our data mining and data analytics capabilities. USAC will work closely with the appropriate FCC Bureaus and Offices to implement any additional safeguards related to these recommendations.

Upon receipt of your letter, we immediately began working with the USAC Board to solicit their ideas and recommendations. The USAC Board reviewed the attached reports and engaged in several working discussions around Lifeline program integrity. The Board asked me to convey the seriousness with which they take this opportunity to provide additional insights and recommendations, and affirm their intention to continue working with USAC in the coming months to refine its additional recommendations to improve efforts to address fraud, waste, and abuse in the Lifeline program.

Mr. Chairman, I thank you for your leadership on these important issues and your unwavering commitment to universal service. I look forward to continuing our work together to ensure that the Lifeline program can help bridge the digital divide and provide access to necessary communications services.

Sincerely,



Vickie S. Robinson
Acting Chief Executive Officer and General Counsel
Universal Service Administrative Company

Attachment A: USAC Report on Lifeline Safeguards Implementation
Attachment B: Lifeline Supplemental Recommendations
Attachment C: Lifeline Safeguard Milestones and Activity Tracker

Attachment A Redacted in its Entirety

Attachment B Redacted in its Entirety

Attachment C Redacted in its Entirety

**Statement of Vickie S. Robinson
Acting Chief Executive Officer and General Counsel
Universal Service Administrative Company
Before the United States Senate Committee on
Homeland Security and Governmental Affairs
FCC's Lifeline Program: A Case Study of Government
Waste and Mismanagement
September 14, 2017**

Good morning, Chairman Johnson, Ranking Member McCaskill, and Members of the Committee. Thank you for this opportunity to represent the Universal Service Administrative Company (USAC) and its hard-working professionals who conscientiously strive to ensure Lifeline program integrity and performance. I look forward to discussing USAC's efforts to effectively and efficiently implement the Federal Communications Commission's (FCC) Lifeline program as part of the Universal Service Fund (USF).

I am honored to appear here today alongside Chairman Pai. It is my privilege to work together with him and our colleagues at the FCC to ensure that the intent and expectations of this Congress and the FCC are met and yes, even exceeded, for the Lifeline program.

I am also honored to be here today with Mr. Bagdoyan of the Government Accountability Office (GAO). My colleagues and I at USAC appreciate the hard work and keen eye his staff have brought to their review of Lifeline and universal service issues. Their analysis and questions, as reflected by this most recent GAO report and all of the GAO reports on the Lifeline program, raise the right issues and directly contribute to our ability to improve program performance and root out waste, fraud and abuse.

I joined USAC in February 2016, after serving in various positions at the FCC for over 14½ years. I held leadership roles in the FCC bureaus charged with universal service policy and enforcement matters. As such, I brought to USAC an up-close understanding of the FCC's goals

for the USF and its programs as well as an understanding of the importance of a strong working relationship between the FCC and USAC. I am committed to building upon that relationship.

I want to assure the Committee that sound fiscal stewardship of the taxpayers' money, who ultimately fund the universal service programs, is of paramount importance to me and to my colleagues at USAC. I am committed to ensuring that not one cent of universal service funds is wasted, and that the USF monies are spent only as directed by the FCC's rules and requirements.

In this testimony, I seek to describe the role USAC plays in administering the Lifeline program. I will endeavor to provide you with the fullest accounting possible of the efforts USAC is taking to improve program integrity and performance, including actions initiated before and since the release of the 2017 GAO Lifeline Report. In particular, I will describe our efforts to be responsive to the GAO report and Chairman Pai's subsequent directive, as well as other administrative changes that USAC has implemented to strengthen the subscriber eligibility verification process and the oversight of Lifeline providers.

The Role of USAC

Over 30 years ago, the FCC began the Lifeline program, and in the Telecommunications Act of 1996 (1996 Act), Congress ratified and expanded the program with the aim of narrowing the digital divide through the principle that "consumers in all regions, including low-income consumers . . . should have access to telecommunications and information services." The Lifeline program impacts the lives of millions of Americans every day and meets the goals set forth by Congress in Section 254 of the Communications Act, as amended by the 1996 Act.

Since it was established, USAC, as USF administrator, has endeavored to ensure that the intent of Congress and the FCC is faithfully followed. In 1998, USAC was designated as the permanent administrator to manage the day-to-day operations of the Lifeline program and other

USF programs including the Schools and Libraries program (commonly referred to as the E-rate program), High Cost (now referred to as the Connect America Fund), and the Rural Health Care program, and overall management of the fund, including contributions, disbursements, auditing USF recipients and contributors, and reporting to the FCC. USAC does not establish policy and may not advocate policy decisions.

As administrator, USAC works closely with the FCC to implement policies and guidance promulgated by the FCC. USAC also works with program participants and the public to provide training and information concerning the Lifeline program. USAC has built upon its experience and has used technological advances, such as the use of third-party identity verification, to safeguard the USF and to make its programs more effective and efficient. Where problems have arisen, we take responsibility and drive hard to implement solutions. USAC is committed to continuous improvement.

In May 2017, the GAO issued a report casting a critical spotlight on the administration of the Lifeline program. Among its many findings, the GAO expressed concern about efficiencies in the Lifeline program, program oversight, and the risk of waste, fraud, and abuse. Over the last few years, USAC has partnered with the FCC to implement modernization of the universal service programs and eliminate the sources of waste, fraud and abuse that were the focus of the most recent GAO report. This testimony focuses on our deliberate and comprehensive efforts to improve Lifeline, but of course, our approach to this program has implications for our contributor activities and USAC's overall management.

Pre-GAO Report Creation of the National Lifeline Accountability Database

In 2014, USAC executed the FCC's direction to create a National Lifeline Accountability Database (NLAD) to help eliminate fraud by detecting duplicate subscribers within the program.

The NLAD is one of the most important tools we have to prevent waste, fraud, and abuse in the Lifeline program. Under the FCC's rules, Lifeline subscribers may only receive support for one connection per household. The NLAD is a database of Lifeline subscriber information collected and submitted by the service providers. Service providers and USAC use the database to perform name and address verification, duplicate checking, and management of enrollment, de-enrollment, and transfer of subscribers between Lifeline service providers.

Implementing the NLAD has drastically reduced instances where subscribers had more than one connection, and were therefore violating Lifeline program rules. Once identified, USAC takes all necessary actions to recover wrongly-disbursed funds. Upon initial launch in 2014, the NLAD detected over 2.5 million duplicate subscribers that have since been eliminated. This led to hundreds of millions of dollars in savings. Lifeline disbursements dropped from \$2.2 billion in 2012 to \$1.5 billion in 2015 following implementation of the NLAD.

USAC has continually worked to upgrade the functionality of the NLAD and to improve Lifeline program safeguards. For example, we added safeguards that prevent service providers from selecting eligibility programs for a subscriber that is not actually available in the state or territory where service will be provided. We also set up restrictions on the phone numbers that can be enrolled to ensure numbers enrolled reflect a valid number under the North American Numbering Plan. In addition, we improved the NLAD's search logic to detect unobvious duplicates using algorithms that must remain secret for enforcement reasons. We are using more data analytics to improve the rigor for duplicate detection and to enhance the accuracy of the NLAD, including automated reports and alerts that are sent to USAC staff for detailed review and further inquiry or referral to the Commission as necessary. These improvements and other

upgrades help USAC identify funds erroneously disbursed and to recover the funds from service providers.

Additional Steps to Combat Waste, Fraud, and Abuse

In-Depth Data Validation & Analysis. Additional steps have been taken by USAC both before and after the NLAD came into being to combat waste, fraud, and abuse. For example, in 2013, USAC conducted In-Depth Data Validation (IDV) on select providers to identify any duplicate subscribers within their subscriber listing. This effort led to the elimination of approximately 2.2 million duplicate subscribers from the Lifeline program before the NLAD was implemented. USAC notified the FCC's Enforcement Bureau of the Lifeline rule violations from the IDV efforts, resulting in the issuance of Notices of Apparent Liability (NALs) for tens of millions of dollars against the violators. USAC continues to collaborate with the FCC on these matters. We are continuously refining our data analysis methodologies in order to better identify, detect, and eliminate waste, fraud, and abuse from the Lifeline program. We have also improved our processes for referring possible incidents of waste, fraud and abuse to the FCC's Enforcement Bureau and the Office of the Inspector General.

Using the NLAD for Lifeline Disbursement Calculations. Another example of our efforts to combat inefficiencies is in the upcoming changes to the reimbursement process that will further reduce fraud. Current Lifeline program rules require service providers to enroll subscribers in the NLAD to perform certain verifications and prevent duplicate enrollments. At the same time, service providers separately claim reimbursement from the Lifeline program on the FCC Form 497. As the GAO report noted, this process creates a risk that Lifeline service providers may be claiming subscribers that were not validated by the NLAD. This risk will be reduced significantly when, beginning with the January 2018 data month (February 2018

disbursement), all Lifeline program reimbursement claims will be calculated based on the subscribers actually recorded in the NLAD. Also, starting this month (September 2017), and until the FCC Form 497 is eliminated in January 2018, USAC will reject any reimbursement requests where the subscriber count exceeds the NLAD subscriber count. USAC will continue to actively monitor the NLAD to address any unusual trends in reimbursements to ensure improved program integrity.

Coordination and Consultation with the FCC. USAC cooperates closely with the FCC to facilitate the efficient management, oversight, and execution of the FCC's universal service programs. USAC regularly consults with the FCC concerning program implementation. USAC also provides the FCC with many reports on USAC's administration of the USF, including the Lifeline program. These detailed reports include improper payment analysis, risk assessments and remediation efforts, as well as audit follow-up efforts. From these meetings and reports, USAC is able to continually identify and rectify areas requiring improvement.

The National Verifier

The FCC's 2016 *Lifeline Modernization Order* directed USAC to establish the National Verifier to authenticate program eligibility prior to enrollment. USAC is closely working with the FCC, state and federal agencies, program participants and other interested parties to develop a system that will ensure program integrity by placing under USAC's control responsibility for verification of subscriber eligibility.

The National Verifier will complement the NLAD. The NLAD was designed to help detect duplicate subscribers; it was not designed as a portal to intake new applications for Lifeline service, or to interface with other systems or databases for automated eligibility verification, which are functions to be incorporated within the National Verifier. The NLAD did

not alter the rules permitting service providers to seek new subscribers, to certify them as eligible, and then obtain reimbursement for these new program participants.

The National Verifier working in tandem with the NLAD will comprise a more comprehensive system to verify eligibility and prevent waste, fraud and abuse. The two systems combined will interface with one another to provide an end-to-end review of the eligibility of both existing and potential subscribers to the Lifeline program. This integration will provide a much-needed eligibility verification system, in a cost-effective manner, to improve the integrity of the program. The National Verifier development is on track to be completed on time and on budget.

Using the National Verifier, prior to allowing enrollment of new Lifeline subscribers, USAC will check available federal and state agency databases to verify that the applicants are eligible for Lifeline qualifying programs, such as the Supplemental Nutritional Aid Program (SNAP), Medicaid, Supplemental Security Income, Federal Public Housing Assistance, and Veterans and Survivors Pension Benefit. USAC has already entered into computer matching agreements with the Department of Housing and Urban Development (HUD) and several state agencies allowing for automated eligibility verification of enrollment in qualifying programs. At the end of August, USAC and the FCC announced that by the first week in December 2017, the National Verifier will launch in six states – New Mexico, Colorado, Utah, Mississippi, Wyoming, and Montana. It will also utilize the connection with the HUD database to verify federal housing eligibility in all of these states. And this is just the start – working in close consultation with the FCC, as well as other federal and state agencies, our intent is that many more states and more federal agencies will join the National Verifier in 2018.

USAC is committed to ensuring the privacy of the information retained in the National Verifier. Each of the computer matching agreements with federal and state agencies comply with the federal Privacy Act. We are also designing the National Verifier system to comply with all applicable federal privacy and data security requirements, and USAC will also require mandatory privacy and security training of all individuals working on the National Verifier.

Using the National Verifier system, subscriber eligibility will be re-checked with these databases yearly, as required by the FCC's rules. If no data sources are available, USAC will manually review documentation collected from the consumer applicant to verify eligibility and require each subscriber to certify their continued eligibility through self-attestation, as required by the FCC's rules.

As more and more states and federal agencies join the National Verifier, and its capabilities expand to nationwide coverage, USAC will use the databases to verify the eligibility of all existing subscribers in those states as they become partners in the National Verifier. If eligibility cannot be determined by a National Verifier data source, USAC will require service providers to either (1) submit documentation they have on file for subscribers or (2) obtain current eligibility documentation from subscribers and submit it to the National Verifier for review. If eligibility documentation cannot be obtained or the documentation submitted is not sufficient, USAC will de-enroll those subscribers from the NLAD and notify the service provider.

The execution of the National Verifier, coupled with the NLAD duplicates review and USAC's aggressive program monitoring, ensures that both new Lifeline applicants and already enrolled applicants will be carefully reviewed to confirm their eligibility to receive the benefits of the program.

The NLAD and the National Verifier combined will serve as a considerable and effective tool for combatting waste, fraud, and abuse. Eligibility checking and verification combined with identity and address verification, duplicate checking, and management of enrollment, de-enrollment, and transfer of a subscriber between Lifeline service providers, are all critical to Lifeline program administration and integrity. The NLAD showed the possibilities for identifying and eliminating waste, fraud and abuse in Lifeline; the National Verifier will build on that base and expand it exponentially. USAC will continuously review the NLAD and National Verifier systems to make improvements to its efficiency and effectiveness.

USAC's Lifeline Safeguard Implementation Plan

The NLAD's and the National Verifier's waste, fraud and abuse detection capabilities are greatly improving USAC's ability to safeguard Lifeline funds. However, duplicate detection and eligibility verification are only a part of how USAC prevents and detects waste, fraud and abuse. The Commission has directed USAC to be vigilant in its efforts to combat against waste, fraud, and abuse. We are therefore grateful that the 2017 GAO report identified additional tools that may assist this effort.

USAC has studied the 2017 GAO report and taken its findings to heart, as we know the FCC and Chairman Pai have. In his letter to USAC dated July 11, 2017, Chairman Pai identified six key areas from the GAO report for action and increased USAC collaboration with the FCC: Ineligible Subscribers, Oversubscribed Addresses, "Phantom" Subscribers (i.e., subscribers who were not enrolled in the NLAD), Deceased Subscribers, Exact Duplicates, and Sales Agent Accountability. Building upon the data analytics and program integrity projects already underway at USAC, we developed the "Lifeline Safeguard Implementation Plan" (Plan), which focuses on the six areas identified by Chairman Pai as detailed below.

- Ineligible subscribers – USAC will review the GAO data to determine the status of the 1.2 million individuals identified as ineligible and de-enroll any remaining ineligible subscribers. Given the age of the data analyzed by the GAO, USAC believes many of these issues have been resolved. In addition to resolving any ineligible subscribers identified by the GAO, USAC will continue to verify the compliance and accuracy in eligibility verification processes of carriers during its audits. USAC is also beginning a monthly sampling effort to check the eligibility verification work of carriers on a routine basis until the National Verifier is implemented.
- Oversubscribed Addresses – USAC will review and conduct outreach on any addresses with 500 or more subscribers, with continuing review of addresses with 25 or more subscribers going forward. We will report our results to the Commission, along with proposals for administrative action.
- Phantom Subscribers – USAC is implementing processes by the first quarter of 2018 to make certain that payments for reimbursement for Lifeline subscribers are not issued before subscribers are confirmed in the NLAD, thus eliminating the question of issuing payments for phantom subscribers. In the interim, USAC will reject any Lifeline support claims where the number of subscribers exceed the number of subscriber in NLAD.
- Deceased Subscribers – USAC will work with GAO data and determine if any of the individuals identified as deceased remain in the NLAD. USAC will work to de-enroll ineligible subscribers, initiate recovery and report results to the FCC.

USAC is also evaluating additional death verification features with its third party identity verification vendor.

- Exact Duplicates – Because the data relied upon by the GAO for its report was provided several years ago, USAC believes it is highly likely these duplicates have already been removed from the database. However, USAC will review the GAO data, and resolve any remaining issues including de-enrollment and recovery of funds.
- Sales Agent Accountability – USAC is working with the FCC to develop a detailed plan on the technical requirements and processes for adding information about sales agents to our databases. A final plan and timeline for implementation will be provided to the FCC by January 2018.

USAC is incorporating additional processes, reviews, and reporting in order to better protect the Lifeline program. Our team is working assiduously to automate several of these checks into the NLAD's processes. We are also working with Chairman Pai and the FCC to develop new tools and conduct reviews to prevent and detect fraud where the NLAD or the National Verifier cannot be leveraged. For example, we expanded the USAC Lifeline Program Integrity Team, and we are incorporating data-driven analytics to better identify trends and fraud risks. As a first step, USAC has identified service providers who have a higher than normal percentage of subscribers that trigger certain "red flags" in the NLAD or other data sources. USAC has requested to review a sample of supporting identity or eligibility documentation for those subscribers. In another process, USAC will identify addresses with 500 or more subscribers and, if the location is not a homeless shelter, nursing home or similar facility, USAC

will conduct outreach to the applicable service providers to ensure the address is verified and the necessary certifications have been obtained as required by FCC rules.

Additionally, USAC is working with its Board of Directors to develop and refine insights and recommendations to address waste, fraud and abuse in the Lifeline program. For example, several members of the USAC Board are involved with program integrity functions in other government programs, and provided informed recommendations based on lessons learned from these activities. The Board's High Cost and Low Income Committee actively works with USAC staff to ensure compliance with the FCC's rules and regulations. We rely on our experienced Board to provide leadership and guidance in our administration of Lifeline and other universal service programs.

USF Fund Accountability

One area of concern raised by the GAO report warrants further elaboration – fund accountability. Since the issuance of the report, USAC has taken concrete steps to ensure accountability for the USF funds. Along with the FCC, we reached agreement with our current private bank to ensure an FCC role in the oversight of the funds until they are transferred to the U.S. Department of the Treasury. USAC is working closely with the FCC and the U.S. Department of the Treasury to transfer the funds in the second quarter of 2018. Further, as recommended by the GAO report, USAC has formalized its banking relationship by entering into a new contract with the bank that handles the USAC administrative funds for expenses such as rent, salaries, and benefits. These actions will resolve specific concerns expressed by the GAO.

Conclusion

Thank you to the Committee for providing me with the opportunity to describe the efforts underway at USAC to improve program integrity and performance. On behalf of all USAC team

members, I want to assure you that we are committed to being responsible stewards of the taxpayers' dollars and delivering an effective and efficient program that fulfills its intended purpose, as defined by Congress and the FCC. We have made real progress, but much remains to be done. With the GAO's keen observations and Chairman Pai's recommendations, USAC will work diligently to ensure that the specific past weaknesses found do not persist, and no new weaknesses arise.

Be assured that USAC will continue to take a multi-pronged approach to strengthening the integrity of the Lifeline program and ensuring program compliance. Specifically, USAC will continue to improve the NLAD by refining its processes, adding additional data collection to support investigations into non-compliance, and increasing the use of data for analysis and detection of potentially improper actions. USAC will move forward vigorously with implementing the National Verifier plan as it begins to roll out later this year and expands in the next two years. USAC will also implement the detailed plan provided to Chairman Pai to study the results issued by the GAO, and is working to implement immediate changes. In addition, USAC will continue to work to develop an even closer partnership with the FCC to improve communications and transparency, including better coordination on referring possible non-compliance to the appropriate offices or bureaus of the FCC for further investigation and enforcement.

I look forward to responding to the Committee's questions.

Universal Service in a Wireless World

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Abstract

In 2005, Lifeline, the primary federal program designed to promote universal basic phone service, was expanded to include discounts to qualifying low-income telephone-service consumers to prepaid wireless as well as for traditional wireline service. Since then, the cost of Lifeline program has greatly increased along with calls for its reform. In this paper, I seek to provide further insights into the effects of the Lifeline program on household adoption of basic phone service. I focus first on two aspects: the impact of the size of the discount and the impact of the recent program expansion to include discounts for prepaid wireless service. Second, I conduct cost-benefit analysis of the subsidy as a whole and of its wireless element. I utilize a unique database taken from the National Health Interview Survey (NHIS) for the 2003-2010 period. The results indicate that the Lifeline program increases a household's propensity to subscribe to phone service, however the effects are quite small. Based on the counterfactual experiments, only one out of eight households that receive the subsidy subscribes to telephone service because of the subsidy. The extension of the Lifeline subsidy to include prepaid wireless service has attracted additional subscribers. However, the counterfactual experiment shows that only one out of twenty households enrolled in the wireless Lifeline program subscribes to telephone service because of the subsidy.

1 Introduction

Universal service has been a central goal of telecommunications policy for over 100 years.¹ Over that period, policymakers have focused on a variety of metrics for judging the “universality” of service, but the most common has been the so-called “penetration rate” of landline telephone service among American households.² Universal service policies have been implemented to ensure that all Americans have the opportunities and security that telephone service provides.

Against this backdrop, in 1984 the Federal Communications Commission (FCC) implemented the Lifeline program. Lifeline is a means-tested program that provides low-income households with a discount on their monthly telephone bill. Between 1988 and 2014 the number of Lifeline beneficiaries grew from roughly 1.8 million to more than 13.7 million. The corresponding expenditures of the program grew from approximately 32 million dollars in 1988 to 1.7 billion dollars in 2014.³

The growth of the subsidy was significantly affected by the policy change that the FCC introduced in 2005. Initially the Lifeline subsidy was available only to subscribers of wireline services. Due to low enrollment rates and the spread of new wireless technology, the FCC allowed companies offering prepaid wireless services the opportunity to offer Lifeline service to eligible households.

In the wake of this new policy, Lifeline subscriptions and the costs of Lifeline grew rapidly – from roughly \$800 million in 2008 to \$1.7 billion in 2014 peaking at \$2.1 billion in 2012. These ballooning costs of the subsidy provoked considerable criticism of the program, calls for program reform, and even proposed legislation to end the Lifeline program altogether or at least eliminate its wireless element.⁴

The merits of this policy change, hereinafter referred to as the *wireless Lifeline initiative*, to include not only wireline but also wireless telephony in the Lifeline program, has not

¹This effort first began through private-sector calls for “universal service” (see Parsons and Bixby (2010)) but later became an explicit public policy objective. See 47 U.S.C. § 151, stating that “communication by wire and radio so as to make available, so far as possible, to all the people of the United States, without discrimination...with adequate facilities at reasonable charges.” Subsequently in Section 254 (b)(3) of the Telecommunications Act of 1996, the goal was made even more explicit, stating that “consumers in all regions, including low-income consumers...should have access to telecommunications and information services.”

²The Communications Act of 1996 expanded the notion of universal service to include advanced telecommunications services as they evolve. In particular, in 2005, the universal services policies were extended to include wireless service; in 2010 the FCC released the National Broadband Plan that started to shape policies toward promotion of the high-speed Internet access.

³See FCC (2014).

⁴See, e.g., Spencer E. Ante “Millions Improperly Claimed U.S. Phone Subsidies,” *Washington Post*, February 11, 2013, p. A1. Also see, the bill “Stop Taxpayer Funded Cell Phones Act of 2011” introduced by Rep. Tim Griffin; and “Ending Mobile Phone Welfare Act of 2013” introduced by Rep. David Vitter.

undergone a systematic economic analysis. Specifically, while some observers have defended the Lifeline subsidy noting that under the program the telephone penetration rate among low-income households increased from 80 percent in 1984 to 92.6 percent by 2013,⁵ this growth in subscribership may have been driven by factors other than the Lifeline program. Neither the posturing of critics or supporters of Lifeline provide specific insights on several key economic questions surrounding the program. Principal among these is whether the program as it has evolved has acted to promote connectivity of American households and at what cost.

This paper has two goals. First, I seek to provide further insights into the effects of the Lifeline program on household adoption of telephone service. In particular, I focus on two aspects: the impact of the amount of the subsidy, and the impact of the recent evolution of the subsidy from being a wireline-only program to supporting both wireline and wireless services. Second, based on my estimation, I conduct a cost-benefit analysis of the subsidy. These questions are important in light of recent proposed rulemaking issued by the FCC, where the Commission proposes steps to extend the Lifeline program to broadband service.⁶

To study the impact of the Lifeline subsidy, I utilize a unique database that combines both public and proprietary (location) household-level data taken from the National Health Interview Survey (NHIS) for the 2003-2010 period.⁷ The theoretical framework is a utility-based model of consumer behavior that incorporates characteristics suggested by the data and controls for the levels of subsidy benefits and regulatory changes. These data are not ideal - there is no information on whether a household participates in the Lifeline program or not. In fact, there is no nationwide database that captures participation of households in Lifeline. To mitigate this problem, the empirical estimation is conducted under two scenarios: first, only households that are eligible for Lifeline receive the subsidy (perfect enforcement); second, the Lifeline rules are not enforced and all households receive the subsidy (inefficient enforcement). The second scenario is considered because of the evidence that a substantial number of non-eligible households received the subsidy - this phenomenon was especially aggravated after implementation of the wireless Lifeline initiative.⁸ In the post-estimation, I conduct two counterfactual experiments to analyze how subscription choices of households change if the wireless Lifeline initiative is eliminated (i.e., the subsidy is not available for wireless service), and if the subsidy is eliminated altogether. Based on the results of these

⁵See, FCC Monitoring Report, 2013.

⁶See FCC Second Further Notice of Proposed Rulemaking, Order on Reconsideration, Second Report and Order, and Memorandum Opinion (2015).

⁷Public NHIS data are available for the later period of time, but proprietary data that I use for my estimation are available only for the 2003-2010 period.

⁸See FCC (2012).

counterfactual experiments, I calculate the cost of adding a marginal subscriber.

In the perfect enforcement scenario, the results indicate that larger subsidies increase the propensity of households to subscribe to telephone service. Adoption of the new policy – wireless Lifeline initiative – also increased telephone penetration rates among households. However, the estimates show that adding a marginal subscriber to the telephone network is quite costly. Given that the Lifeline payments in 2010 accounted for approximately \$1.2 billion, the estimated cost of adding a marginal wireline or wireless subscriber is \$1,151 per year. Given that the actual cost of the subsidy is only \$138 per year, the estimates indicate that only one of eight households enrolled in Lifeline subscribes to telephone service because of the subsidy; the other seven are infra-marginal subscribers (i.e., households that would subscribe to telephone service even in the absence of the subsidy). Based on the results of a counterfactual experiment specific to the wireless Lifeline initiative, the estimated cost of adding a marginal subscriber to a wireless network is \$2,835 per year. That means that only one out of twenty households that receive subsidies for wireless prepaid service subscribes to the telephone service because of the subsidy; the other nineteen are infra-marginal subscribers. I also find that if the Lifeline program were eliminated altogether, over one million households would have cancelled telephone service in 2010, which would have decreased the telephone penetration rate among US households from 95.8 percent to 94.9 percent.

In the inefficient enforcement scenario, the level of Lifeline benefit and extension of the subsidy to wireless service also increase the propensity of households to subscribe to telephone service. However these effects, while significant, are much smaller than in the first scenario. Thus, the estimated cost of adding a marginal subscriber to the telephone network, wireline or wireless, is higher than in the first scenario – approximately \$3,093 per year, while the cost of adding a marginal subscriber to a wireless network is \$5,486 per year. In this scenario the consumer behavior is quite different than in the perfect enforcement case. The results from the counterfactual experiment indicate that if the subsidy were cancelled for both wireline and wireless services, the majority of consumers would switch from the “wireless-only” category to either “both” or “landline-only” categories. Only about 400,000 households would have disconnected telephone service in 2010, which would have decreased the overall telephone subscription rates from 95.8 percent to 95.5 percent.

This study complements the literature in several ways. First, I estimate my model in the framework where consumers have a choice of wireless, wireline or both services,⁹ while exist-

⁹This paper builds on the literature that studies telecommunications demand, e.g., Perl (1983), Taylor and Kridel (1990), Bell Canada (Bodnar et al. 1988), Train, McFadden and Ben-Akiva (1987), Taylor (1994), Schement (1995), Riordan (2002), Rodini, Ward and Woroch (2003), Gideon and Gabel (2011), and Macher et al. (2015).

ing empirical studies of the Lifeline program focus primarily on traditional *landline* service [Garbacz and Thompson(1997, 2002, and 2003), Eriksson, Kaserman and Mayo (1998), and Akerberg et al. (2014)]. Second, I analyze how the extension of Lifeline to include wireless service affected a household's propensity to adopt a phone. To my knowledge, there has been no empirical study of this regulatory change. Finally, I provide a cost-benefit analysis of the subsidy as a whole and of its wireless element.

My results are similar to the existing findings. Most of the economic research on the Lifeline program has indicated that it has promoted telephone subscriptions, but the gains have been costly. Erickson, Kaserman and Mayo (1998) estimate that the cost per new subscriber was between \$133 and \$556 depending on the poverty level for the 1985-1993 period. Garbacz and Thompson (2002) show that the cost per added household was \$191 in 1990, and it increased to \$1581 in 1998. The most recent study by Akerberg et al. (2013) estimates that the cost of adding a new subscriber was \$519 in 2000.

The next section provides background of the Lifeline program.

2 Evolution of the Lifeline Program

The Lifeline program was established in 1984 after the divestiture of AT&T in response to the concerns that potential rate increases could harm low-income consumers and decrease their telephone subscription rates.¹⁰ Initially Lifeline was available to low-income subscribers of wireline service, the only telephone option widely available to the public at the time.

The Lifeline program promotes telephone subscribership by providing low-income households with monthly discounts on the cost of telephone service. To qualify for Lifeline, the household income must be at or below 135 percent of the Federal Poverty Guidelines, or one of the household members must participate in one of the welfare programs specified by the FCC.¹¹ Each eligible household can subsidize at most one phone, regardless of the number of telephone subscriptions in a household. Currently, the level of Lifeline benefits is the same

¹⁰Together with Lifeline in 1987 the FCC established another low-income subsidy program Link Up. Link Up is a one time subsidy that reduces the initial subscription fee to the public switched network or the activation fee to wireless service. Link Up has been a much smaller program than Lifeline, it accounted for less than 10 percent of total low-income subsidy payments. It was eliminated except to recipients on Tribal lands in February 2012 as a result of FCC reforms (see FCC (2012)) and it is not addressed in the current study.

¹¹These federal programs include: Medicaid, Supplemental Nutrition Assistance Program (Food Stamps or SNAP), Supplemental Security Income (SSI), Federal Public House Assistance (Section 8), Low-Income Home Energy Assistance Program (LIHEAP), Temporary Assistance to Needy Families (TANF), National School Lunch Program's Free Lunch Program, Bureau of Indian Affairs General Assistance, Tribally-Administered Temporary Assistance for Needy Families (TTANF), Food Distribution Program on Indian Reservations (FDPPIR), Head Start (if income eligibility criteria are met), or State assistance programs (if applicable).

in all states - \$9.25 per month. Before 2012, the amount of the subsidy varied across states. My estimation strategy leverages this variation to evaluate the importance of the size of the benefit. Table 1 shows the amounts of Lifeline benefits across US states in 2010.¹²

Historically, the program was not very popular among eligible households. Figure 1 compares Lifeline program participation with household participation in the Supplemental Nutrition Assistance Program (SNAP), a welfare program that is used by the FCC to establish the eligibility criteria for participation in Lifeline, over 1996-2014. This comparison suggests that many eligible households do not take advantage of Lifeline benefits.¹³ The Commission undertook several attempts to increase participation rates in the program.

First, in 2000 the FCC enhanced the program benefits for residents living on or near federally-recognized tribal lands and reservations.¹⁴ Second, in 2004, the Commission expanded the federal default eligibility to include an income-based criterion of 135 percent of the federal poverty guidelines and additional means tested programs.¹⁵ Finally, in 2005, the FCC decided to forego a “facilities requirement” for approving telephone companies as Eligible Telecommunications Carriers (ETCs) for Lifeline support only. This change in regulation, which from now on is referred to as *wireless Lifeline initiative*, provoked rapid growth of Lifeline subscribers and consequently costs of the subsidy.

Since the 1996 Telecommunications Act the FCC had maintained a requirement that only facilities-based telephone companies could serve as ETCs for the purpose of providing the Lifeline subsidy. However, based on the petition of TracFone, a non-facilities-based, commercial mobile radio service provider (reseller) offering prepaid service, the FCC decided to eliminate the facilities requirement.

Although TracFone was granted a forbearance from the facilities requirement in 2005, its designation as an ETC was conditional on implementation of several FCC requirements.¹⁶

¹²The statistics are provided for 2010, because the sample used in the empirical estimation is for the 2003-2010 period.

¹³Studies by Burton, Macher and Mayo (2007) and Hauge, Jamison and Jewell (2008) examine Lifeline participation rate and characteristics of the program that might influence enrollment in the subsidy.

¹⁴Federal-State Joint Board on Universal Service; Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas, Twelfth Report and Order, and Further Notice of Proposed Rulemaking, CC Docket No. 96-45, FCC 00-208, 15 FCC Rcd 12,208 (2000).

¹⁵See *Lifeline and Link Up*, Report and Order and Further Notice of Proposed Rulemaking, 19 FCC Rcd 8302 (2004).

¹⁶The grant of the ETC status was conditional on TracFone (a) providing its Lifeline customers with 911 and enhanced 911 (E911) access regardless of activation status and availability of prepaid minutes; (b) providing its Lifeline customers with E911-compliant handsets and replacing, at no additional charge to the customer, non-compliant handsets of existing customers who obtain Lifeline-supported service; (c) complying with conditions (a) and (b) as of the date it provides it provides Lifeline service; (d) obtaining a certification from each Public Safety Answering Point (PSAP) where TracFone provides Lifeline service confirming that TracFone complies with condition (a); (e) requiring its customers to self-certify at time of service activation and annually thereafter that they are the head of household and receive Lifeline-supported service only from

The first Lifeline offerings by TracFone appeared in 2008 in Florida, Tennessee, and Virginia.

In fact, facilities-based carriers had provided Lifeline support for wireless service before 2008; however, the Lifeline wireless payments were negligible. The elimination of the “facilities requirement” opened a way for many resellers that previously had not qualified as ETCs, to apply for provision of Lifeline support – by 2014 prepaid wireless carriers were offering Lifeline subsidy in 49 states. For this reason, the wireless Lifeline initiative is often referred to as the beginning of subsidized wireless phones, popularly called “Obama phones.”¹⁷

Since implementation of the wireless Lifeline initiative, the number of Lifeline participants has grown significantly. Figure 2 shows that the number of program participants grew from 6.7 million in 2008 to almost 14 million in 2014. As a result the payouts under the Lifeline program have progressed as well; Figure 3 shows that the costs of the program increased more than two times – from \$785 million in 2008 to \$1.7 billion in 2014.

The increasing costs of the Lifeline program have resulted in higher fees passed along to consumers. All universal service support mechanisms, including Lifeline, are funded by the Universal Service Fund (USF). Companies pay a percentage (or contribution factor) of their interstate and international end-user revenues that appear on consumers’ monthly wireline and wireless service bills. Figure 10 displays the growth of Lifeline quarterly spending requirements and USF contribution factor. In 2008 the average Lifeline spending per quarter was around \$200 million, in 2012 quarterly spending rose three times to \$600 million, and fell to \$400 million quarterly in 2014. At the same time the USF contribution factor grew from 10 percent to 16 percent. According to the FCC 2014 Monitoring report each household faces an approximately \$3 monthly charge that goes to USF, that amounts to approximately \$36 out of pocket expenditures per household per year.

To better understand the nature of this increase in participation rates and program costs, I segmented Lifeline beneficiaries into subscriber groups of wireline, wireless excluding prepaid, and prepaid wireless services. Figures 4 and 5 show that most of the growth since 2009 in the number of program subscribers and payments can be attributed to the growth of Lifeline subscribers to prepaid wireless service. From 2008 to 2014 the percentage of Lifeline reimbursements to resellers increased from 1 to 76; while the percentage of Lifeline reimbursements to wireline carriers decreased from 90 to 16.

The extension of the subsidy to prepaid wireless service might have benefited low-income consumers, the majority of whom have been relying solely on wireless service in the recent

TracFone; and (f) establishing safeguards to prevent its customers from receiving multiple TracFone Lifeline subsidies at the same address.

¹⁷This moniker is however inapt. The change in the regulation was approved in 2005, during the Bush Administration.

years.¹⁸ Figure 6 shows subscription rates to telephone service among low-income and all US households over the 1984-2014 period. The telephone subscription rates among low-income households have increased from 89.7 percent in 2008 to 93.1 percent in 2014. Also, over time the difference in subscription rates between low-income and all US households has significantly narrowed.

On the other hand, even though the growth of the Lifeline program coincided with the growth of telephone subscriptions (this tendency is shown in Figure 3), there might be other factors that prompted households to subscribe to telephone service such as improved quality of wireless service or decrease in prices of telephone service. Potentially, the growth of Lifeline may be caused by the worsened economic conditions and decreases in income. Note that concurrent with the effective implementation of the wireless Lifeline initiative in 2008, the US entered a period of significant financial turmoil and recession, during which other social welfare programs also experienced significant increases in the number of participants and in program costs.

Besides worsened economic conditions there are several other possible causes of growth of the Lifeline program related to the introduction of wireless Lifeline initiative that do not necessarily result in increased subscription rates. First, the wireless Lifeline initiative might have attracted eligible customers who had not been enrolled in Lifeline before the subsidy expansion. These could be either customers who had not subscribed to telephone service before Lifeline expansion (marginal consumers), in which case subscription rates would increase, or customers who would have subscribed to telephone service anyway but who now find it more attractive to take Lifeline (infra-marginal subscribers), in which case subscription rates would stay the same.

A second source of change that might be caused by the wireless Lifeline initiative is that the filter by which households are deemed to be eligible becomes less binding. The program, initially designed for traditional wireline service, was not adjusted for extension to wireless service which is quite different in nature. This led to fraud and waste of federal funds.¹⁹ In particular, the rule of one phone service per household is harder to sustain once the subsidy is available to cell phone service subscribers in the absence of unified database of all Lifeline customers.

Finally, the verification procedures during initial enrollment in the program have also proved inefficient in some states. Lifeline subscribership data reflects troubling evidence suggesting that non-eligible households may be enrolling in the program at a particularly rapid rate in states that do not require documentation of program-based eligibility at sign-

¹⁸Blumberg, Stephen J., and Julian V. Luke (2015).

¹⁹Julie A. Veach (2013).

up.²⁰

This research seeks to explore the role of Lifeline in the growth of telephone subscribership among US households. If in fact Lifeline increased telephone penetration rates, how much does it cost to add a marginal subscriber to the telephone network under the program?

3 Data

Data for this research are taken from the National Health Interview Survey (NHIS) conducted by the National Center for Health Statistics (NCHS). The NHIS is a household survey that collects data on roughly 35,000 - 40,000 households and 75,000 - 100,000 individuals annually. The survey does not follow the same individuals through the course of interviews, hence my sample is a pooled sample of cross-sections. The NHIS includes questions on demographics, the health status of the population, and telephone coverage. Specifically, the survey includes questions about the status of household subscription to telephone services: either wireline or wireless, both or none. The NHIS conducts the survey in person and covers the civilian and non-institutionalized population residing in the United States at the time of the interview.²¹

While most of the NHIS data are publicly available, specific household location is confidential. With the approval of the Center for Disease Control and Prevention (CDC), I obtained the restricted portion of the data and could therefore link the NHIS sample to data from the Federal Communications Commission (FCC), the United States Census Bureau, the United States Bureau of Labor Statistics, and the United States Department of Agriculture.

3.1 Data Overview and Descriptive Statistics

The initial NHIS data set contains 190,072 household-level observations. I eliminate observations for which essential information is missing. The sample used in the estimation contains approximately 20,000 observations in each year for the 2003-2010 period, or 167,397 household-level observations in total. Table 2 shows the annual percent of households without phone service in the sample. It stays around 1.5 percent every year with small variation.²²

²⁰For example, the number of Lifeline subscribers in Louisiana, which does not require documentation of program participation at enrollment, increased by 1,565 percent from 2008 to 2011. Over the same period, the number of Lifeline subscribers in Kansas, which does require documentation, increased only by 105 percent from 2008 to 2011 (See FCC (2012)). Based on the ETCs' surveys conducted in 2011, 9 percent of the respondents surveyed responded that they were no longer eligible for Lifeline, and 27 percent of subscribers failed to respond to the carriers' verification surveys.

²¹For further details, see http://www.cdc.gov/nchs/nhis/about_nhis.htm.

²²As shown in Table 2, the full NHIS sample contains larger percentage of households without telephone service; however for some households in the sample essential information is missing. In most cases, it is

Figures 7, 8, and 9 show annual telephone subscription choices for the whole sample, low-income households, and households that I identify as eligible for Lifeline, respectively, for the period of 2003-2014. The telephone choices include no phone, landline only, wireless phone only, or both services. Low-income households are households with income below poverty level, and they are a subset of eligible households. As shown in these figures, low-income households experience the lowest subscription rates, followed by eligible households.

Both eligible and low-income households are more likely to choose subscription to only one service, and there has been a dramatic shift in preferences toward wireless service among all groups of households. In the period 2003-2008, both eligible and low-income households exhibit heavy reliance on landline. In 2009, across the entire sample for the first time the percentage of households that subscribe to cell phone only service exceeded the percentage with landline service. The same shift occurred among eligible and low-income households. In 2014, almost 57 percent of eligible households were wireless-only, and more than 62 percent of low-income households subscribed only to cell phone service. In contrast, the US average was around 47 percent in 2014.

Table 4 provides summary statistics based on the sample used in the estimation.

3.2 Variables

To determine the main factors that influence demand for telephone service, and in particular the effect of subsidies and regulation, I employ several groups of explanatory variables. Variables of primary interest are levels of subsidy and measures of changes in regulation. Second, I incorporate price measures along with household income. Third, I include demographic characteristics that have been historically shown to affect the demand for telephone service. Finally, I control for quality characteristics of wireline and wireless services. Below I provide a general overview of the variables. Appendix B includes the notation, definitions and sources of all variables.

Low-Income Program Variables To account for the effect of the subsidies, I include combined federal and state monthly Lifeline support per beneficiary by state (*Lifeline Benefit*) for the 2003-2010 period. These data are available within the FCC “Universal Service Monitoring Report.” I expect that higher program benefits will result in an increased propensity of telephone subscriptions.

the information about income level that is not provided. However, as shown in Appendix A, demographic characteristics of the NHIS data set closely resemble those of the U.S. population. For this reason, I believe that the estimates based on restricted sample of households for which all information is represented are correct.

To control for the availability of the wireless Lifeline initiative in a particular state, I use total prepaid wireless Lifeline payments within the state for each year (*Wireless Lifeline Initiative*). Zero or very small payment amounts under the wireless Lifeline initiative mean that there is no ETC in the state that offers Lifeline for wireless prepaid service, or that eligible customers are unaware of the subsidies. The greater the amount of payments under the wireless Lifeline initiative, the more likely that the subsidy for prepaid wireless service is easily available to eligible households in that particular state.²³

Finally, from the NHIS data, I identify households eligible for low-income benefits according to the federal eligibility criteria (*Eligible Household*).

Price and Income Variables In order to estimate consumer demand empirically, I include measures of wireline and wireless prices. I use 2002 data on the basic flat monthly charges by wire centers throughout the U.S.²⁴ The areas served by wire centers typically comprise parts of several counties. I use population weights within individual wire centers to construct a weighted price by county for residential landline service throughout the U.S. To update these data for the 2003-2010 period, I utilize the Federal Communication Commission's "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service" (Reference Book). The Reference Book reports the results of an annual survey of local monthly fixed telephone rates for 95 cities located throughout the U.S. The year-to-year Pearson correlations between the prices are very high, averaging .96 during the relevant time period, indicating that the major source of wireline price variation is captured by the spatial disaggregation of prices at the beginning of the sample period. The prices are updated by the values of the Consumer Price Index (CPI) for local exchange service during the 2003-2010 sample period.

Finding a measure of wireless price is quite a challenge. Mobile carriers offer numerous subscription plans to consumers. A plan usually includes a "bucket" of minutes for a flat rate charge. For consumers whose usage levels remain within the purchased bucket, the price can be taken as an average monthly expenditure for the service. Data on average

²³For robustness check, I used other controls for the wireless Lifeline initiative, such as an indicator that subsidies for wireless prepaid service are offered in a particular state, and wireless Lifeline prepaid payments per capita. The regression results with either of these measures are very similar to the ones with the total prepaid wireless payments.

²⁴These data were graciously provided by Greg Rosston, Scott Savage and Bradley Wimmer. See Rosston, Savage and Wimmer (2008) for their research using these data. While many local telephone companies offer local measured service in which customers pay a smaller monthly subscription charge and (after a call or minute allowance) pay a marginal charge per minute or call, industry sources report that the percentage of customers who avail themselves of this option is *de minimus*. Accordingly, I focus on consumers' choices based on variations in flat monthly rates. For a detailed study of the economics of such optional calling plans, see Miravete (2002).

expenditure per user (including roaming charges and long-distance toll calling) were taken from the Cellular Telephone and Internet Association (CTIA). CTIA conducts a semi-annual survey of its member companies called *Wireless Industry Indices*. The survey includes data from companies representing over 95 percent of all U.S. wireless subscribers between 2003-2010. To account for spatial variation in the measure of wireless prices, I incorporate local and state taxes paid by consumers in different locales. Data on state and local taxes are provided by the Committee on State Taxation (COST). The tax data are collected every three years starting in 1998 (i.e. 2001, 2004, 2007 and 2010).²⁵ COST reports the prevailing state sales tax inclusive of general sales taxes. Local tax rates for each state were calculated as the average of those imposed in the largest city and those imposed in the capital city. The first two reports include the single measure of local and state taxes applied to wireline local and long distance service as well as mobile service. In later reports, taxes levied specifically on wireless service were reported separately. I used linear interpolation to calculate tax rates for the years between reports.

Drawing on the NHIS survey data, I also include measures of household income. Household income is categorized relative to an annual poverty threshold using four dichotomous variables. Household income below the poverty threshold (*Income1*), between one and two times the poverty threshold (*Income2*), between two and four times the poverty threshold (*Income3*), and more than four times the poverty threshold (*Income4*) are relevant categories.

Endogenous Variables and Exclusion Restrictions I consider the potential endogeneity of prices and the amount of the Lifeline subsidy. The endogeneity of prices may rise for several reasons: for example, where there is an unobserved attribute of the service, such as quality or advertising, that is correlated with price. Without correcting for endogeneity, the aggregated demand is estimated to be upward-sloping, suggesting that omitted attributes are positively correlated with demand.

The endogeneity concern regarding the amount of the Lifeline subsidy arises from the presumption that states with lower telephone subscription rates might provide higher low-income support in order to increase penetration rates. This assumption is supported by the statistics from the FCC Monitoring Report, 2010. Table 3 shows that in 1997 the penetration rates among low-income households in the states with high assistance is lower than in the states with intermediate or low assistance. The same holds for the sample of all households; however, the difference in penetration rates among states with different levels of assistance is smaller. By 2009, the difference in telephone subscription rates diminished for states with

²⁵See COST (2002, 2005) and Mackey (2008, 2011).

different support levels.

As always with endogeneity, the selection of exclusion restrictions is an issue. Exclusion restrictions should be correlated with the endogenous variables, but should not affect the dependent variable. The exclusion restriction I use in the equation (2) for estimation of the wireline price is the *Hausman-Type Instrument*.²⁶ The price instrument for county i is calculated as the average price in other counties in the same state. This instrument seems to be appropriate, because carriers face the same regulations and fees within the same state, so the prices of the same carrier in other counties should reflect common costs within the state.

To estimate the wireless price, I use *Mobile Penetration*. It is plausible that economies of scale exist in the wireless industry. Economies of scale imply cost reductions with increased penetration. Thus, mobile penetration might impact the price as a cost-shifter. Regression analysis shows that the mobile penetration rate does not influence telecommunications demand.²⁷ Hence, it seems to be a reasonable choice of instrument.

I use the percent of families at or below 135 percent of the poverty level (*Families Below 135*) as the exclusion restriction for the subsidy payments. This variable does not directly affect the telecommunications demand, but states with higher poverty levels may be more prone to provide higher social benefits. To check for robustness, I also use the party affiliation of the governor (*Democrat Governor*) as an exclusion restriction for the amount of the subsidy. In the majority of the states, a public utility commissioner is appointed by the governor. The Public Utility Commission plays a major role in determining the size of the Lifeline subsidy. Democrats might be inclined to provide more generous subsidies than Republicans.

Demographic Variables I include demographic variables that are conventionally regarded as important determinants of telephone demand. I control for age (*Age of Head of Household*), education (*Educated Household*), household size (*Household Size*), home ownership (*Own Home*), ratio of employed members in a household (*Ratio Working*), number of children (*Children*), the presence of a student in a household (*Student*), the presence of members with health limitations (*Limited Youth* and *Limited Adult*) in a household, the presence of a retiree in a household (*Retired Household*); racial composition (*White*, *Black*, *Hispanic* and *Native American Households*), and gender composition (*Female Household* and *Male Household*).

²⁶See Hausman (1996), Petrin and Train (2010).

²⁷See Barnett and Kaserman (1998).

Quality Variables/Geographic Variables I include population density (*Population Density*) to account for potential network effects, or in contrast, the potential extra value of connection to a resident of a rural area.²⁸ To capture the increase in demand due to inter-temporal variation in the wireless service quality, I control for a number of cell sites deployed by the wireless industry in each year between 2003-2010 (*Cell Sites*).²⁹

4 Econometric Specification

For empirical estimation I utilize a mixed logit model. This model allows to account for heterogeneity in consumers' preferences, does not restrict substitution patterns, and allows for correlation in unobserved factors over time. The price coefficient varies across consumers, while other coefficients are fixed. The price coefficient is independently normally distributed. I also account for potential endogeneity of the prices and levels of subsidy benefits.

Consider a consumer who faces four alternatives for a telephone: (1) no phone, (2) landline only, (3) cell phone only, or (4) both landline and cell phone, and chooses the alternative with the highest level of utility. The utility of option j ($j = 0, N, W, NW$), which accordingly corresponds to the choice of no phone (0), wireline only (N), wireless only (W), or both phones (NW) can be written as:

$$U_{njt} = V(\text{Price}_{njt}, LL_{nt}, WLI_{njt}, \mathbf{X}_{nt}, \beta_n) + \epsilon_{njt}, \quad (1)$$

where Price_{njt} is the price of service j ($j = N, W, NW$) faced by household n at time t , and price of outside option (no phone) is zero; LL_{nt} denotes the amount of Lifeline benefits that household n faces at time t ; WLI_{njt} represents the wireless Lifeline initiative (it is approximated by the total amount of subsidy payments to wireless prepaid ETCs in the state of household n 's residence at time t); \mathbf{X}_{nt} is a $k \times 1$ vector that includes all other controls, such as income and demographic characteristics of household n at time t and some alternative-specific characteristics in the area where household n resides; β_n is a random price coefficient that represents taste of consumer n ; ϵ_{njt} is the unobserved portion of utility.

To address the issue of potential endogeneity of prices and low-income benefits, I follow Petrin and Train (2010) by implementing a control function approach. The idea behind the control function approach is to derive proxy variables that condition on the parts of

²⁸See, Macher et al. (2015).

²⁹The annual data are available in the CTIA report. It includes repeaters and other cell-extending devices but excludes microwave hops. The location of the specific cell site is confidential, thus I am unable to account for their geographic distribution. My measure of cell sites might also underestimate inter-temporal wireless service quality improvement due to technological differences of towers deployed in the different periods.

endogenous variables that are correlated with the unobserved utility ϵ_{njt} . This can be done, if endogenous variables are regressed on all the exogenous variables that enter utility and some exclusion restrictions Z_n that do not directly enter utility, but impact endogenous variables. In the first stage I estimate the following system of equations:

$$\begin{cases} Price_{njt} = f(\mathbf{X}_{nt}, Z_{nt}) + v_{njt}, \\ LL_{nt} = f(\mathbf{X}_{nt}, Z_{nt}) + \nu_{nt}. \end{cases} \quad (2)$$

System of equations (2) is estimated by simple OLS regression of prices and subsidy benefits on exogenous variables \mathbf{X}_{nt} and exclusion restrictions Z_{nt} . Then I recover the estimated residuals to use them as control functions in the estimation of mixed logit:

$$\epsilon_{njt} = CF(v_{njt}, \nu_{nt}; \lambda_P, \lambda_B) + \tilde{\epsilon}_{njt}, \quad (3)$$

where $CF(v_{njt}, \nu_{nt}; \lambda_P, \lambda_B)$ denotes the control function with corresponding parameters λ_P and λ_B . I specify the control function as linear in v_{njt} and ν_{nt} ; $\tilde{\epsilon}_{njt}$ are i.i.d. extreme value and independent of other regressors.

The utility function with the control function that generates the mixed logit model is specified as:

$$U_{njt} = V(Price_{njt}, LL_{nt}, WLI_{njt}, \mathbf{X}_{nt}, \beta_n) + \lambda_P v_{njt} + \lambda_B \nu_{nt} + \sigma \eta_{nj} + \tilde{\epsilon}_{njt}, \quad (4)$$

where η_{nj} is i.i.d. standard normal, and σ is standard deviation of η_{nj} .

Conditional on the CF, the probability that consumer n chooses alternative i is equal to

$$P_{ni} = \int \mathbb{1}(U_{nit} > U_{njt} \forall j \neq i) f(\beta_n, \tilde{\epsilon}_n) \phi(\eta_n) d\beta_n d\tilde{\epsilon}_n d\eta_n, \quad (5)$$

where $\mathbb{1}$ is an indicator function.

Given that the error terms follow extreme value distribution, the mixed logit probability based on this utility is specified as:

$$P_{ni} = \int \left(\frac{e^{V_{ni}(v_n, \nu_n, \eta_n)}}{\sum_{j=1}^4 e^{V_{nj}(v_n, \nu_n, \eta_n)}} \right) \phi(v_n) \phi(\nu_n) \phi(\eta_n) dv_n d\nu_n d\eta_n. \quad (6)$$

In the framework of perfect enforcement, the subsidy levels as well as the expansion

of Lifeline are relevant only to eligible households. To account for that, the amounts of the Lifeline benefits, and control for the wireless Lifeline initiative enter utility function intersected with the dummy variable indicating that a household is eligible to enroll in the program. In the framework of ineffective enforcement, I assume that any household is a potential beneficiary of Lifeline. In this case, subsidy levels and Lifeline expansion are relevant for every household and these variables enter utility without any intersection.³⁰

5 Results

First, consider mixed logit model in a perfect enforcement framework, where it is assumed that only eligible households are able to enroll in the subsidy program. In each regression the unit of observation is a household and the dependent variable is telephone choice of the household.

The independent variable of interest is the amount of subsidy benefits (*Lifeline Benefit*), and the total amount of Lifeline payments for wireless prepaid service in a state (*Lifeline Wireless Initiative*). All subsidy-related variables enter the model interacted with an indicator of eligible household (*Eligible Household*).

Other independent variables are the prices of all telephone options (wireline, wireless, or both services); the price of the outside option (no phone) is zero. I include controls for household income and demographic characteristics (*Retired Household*, *Age of Head of Household*, *Own Home*, *Black Household*, *Hispanic Household*, *Native American Household*, *Population Density*, *Household Size*, *Male Household*, *Educated Household*, *Ratio Working*, *Children*, *Student*, *Limited Youth*, *Eligible Household*),³¹ a number of cell sites (*Cell Sites*) to control for inter-temporal changes in the quality of wireless service, and year dummies to account for time fixed effects and the potential impact of recession. Following the methodology of control function approach, I include estimated residuals from the equation (2).

Table 5 reports the estimation results for this model. The reference category is the outside option (no phone). The retained price residuals from the first step are not significant indicating that the hypothesis of price exogeneity cannot be rejected. The retained residual of *Lifeline Benefit* is negative and significant, confirming the hypothesis of the endogeneity of amount of subsidy.

Determinants of Telephone Subscription The estimates confirm findings in the existing literature; the major drivers of telephone demand are found to be price, income,

³⁰This approach is used in the majority of existing studies of Lifeline (see, Garbacz and Thompson (1997, 2002, 2003)), except for the study by Akerberg et al. (2014) who conduct analysis on the sample of low-income households.

³¹See Macher et al., (2015).

age, home ownership, and quality of mobile service.³² Lower prices increase the propensity of households to adopt a phone. The results, not surprisingly, indicate that the most price-sensitive groups of consumers are households below the poverty level, and with the ratio of income to the poverty level between one and two. The price-sensitivity does not vary significantly among consumers in two highest income categories.

Wealthier and elderly households have a higher propensity to subscribe to the telephone network. Wealthier households tend to subscribe to both services, and are less likely to be wireless-only. The greater age of the head of the households and home ownership are both associated with an increased propensity of subscription to wireline service only, or to both wireline and wireless services, and a decreased propensity of subscription to wireless service only.

The results also indicate that improved quality of wireless service, measured by the number of cell sites, considerably increases the propensity of households to subscribe to wireless service only, and decreases the propensity of households to subscribe to only a landline.

Effects of Lifeline. Perfect Enforcement Turning to the principal variables of interest, the results reveal that higher levels of Lifeline benefits increase the likelihood of subscription to telephone services among eligible households. The results also indicate that the FCC's wireless Lifeline initiative has had a positive and significant impact on the propensity to subscribe to landline only and to wireless only services. As expected the implementation of subsidies for wireless prepaid service increases the propensity to subscribe to wireless service. It is quite surprising that the wireless Lifeline initiative increases the household propensity to subscribe to landline service. A possible explanation is that the extension of Lifeline made the subsidy program more popular among eligible households, perhaps due to advertising. More eligible households started enrolling not only in wireless Lifeline, but also in Lifeline for wireline service.

To summarize, the results indicate that the subsidy, in fact, has increased telephone penetration rates among eligible households, and the subsidization of prepaid wireless service has encouraged even more low-income households to subscribe to telephone network.

To test the goodness of fit of the mixed logit model, I estimate the predicted frequencies of alternatives. Table 6 shows that the estimated probabilities closely match the shares of customers choosing each alternative.

Counterfactual Policy Experiment. Perfect Enforcement Using the estimates from the mixed logit model reported in Table 5, I conducted a policy experiment to see how elimination of Lifeline altogether, or its prepaid wireless part, would impact penetration rates

³²See, for example, Riordan (2002), Macher et al. (2012).

and telephone choices of households in general. Table 7 provides the results of this exercise. The estimates show that if the prepaid mobile service were not subsidized, households would switch from being wireless only to “both” and “landline only” categories. Households would switch to the “both” category, because the two services are substitutes; hence, a household can partly substitute the more expensive service (wireless) for the less expensive one (landline), and still enjoy the convenience wireless service. In addition, 147,034 households give up the telephone service altogether.

If the program were to be eliminated entirely, then over one million households would cancel telephone services (that is 23.6 percent of households that currently do not have telephone service); 60 percent of disconnected households are coming from the “wireless only” category, 30 percent from the “landline only” category, and 10 percent from the “both” category. The elimination of the subsidy would have decreased telephone penetration rate from 95.8 percent to 94.9 percent in 2010.

Based on the results of the counterfactual experiment conducted above, I estimate the cost of adding a marginal subscriber (in this context, a household) to telephone network, wireless or wireline, in 2010. I divide Lifeline expenditures in 2010 – approximately \$1.24 billion dollars – by the number of households that would disconnect telephone service if subsidy was not available. My calculations show that it costs \$1,151 per year to add a new subscriber to the telephone network, while the actual average cost of the subsidy is \$138 per household per year. This result indicates that out of eight households that receive the subsidy only one household subscribes to telephone service because of the subsidy, and the other seven would have telephone service even if the subsidy were not available.

Similarly, I calculate the cost of adding a marginal subscriber to the wireless network. I find that the wireless Lifeline initiative has attracted new subscribers at an even higher expense of \$2,835 per additional subscriber per year. That means that only one out of twenty households is a marginal subscriber; and the remaining nineteen are infra-marginal subscribers.

Inefficient Enforcement of Eligibility The FCC reported cases when non-eligible consumers enrolled in the low-income support programs due to self-certification of eligibility.³³ With this evidence, I consider a scenario with ineffective enforcement of subsidy rules, that is when non-eligible households are also able to receive the subsidy.

To estimate a mixed logit model in this setting, I include controls from the previous model, except now the program benefits and control for the wireless Lifeline initiative enter the model without intersection with eligibility.

Table 8 reports estimation results for this model. The results closely mimic estimates

³³See FCC (2012).

under the perfect enforcement scenario. The level of the Lifeline subsidy has a positive and statistically significant impact on the propensity of households to adopt a phone. The introduction of subsidies for prepaid wireless service also enhances the subscription to all three telephone options. However, both coefficients are smaller than in the case of perfect enforcement of Lifeline rules.

Table 9 presents the goodness of fit test for this mixed logit model. The predicted frequencies of alternatives closely match the actual shares of consumers choosing each alternative.

Counterfactual Policy Experiment. Inefficient Enforcement Table 10 provides the results of the policy experiments. The elimination of the wireless Lifeline initiative results in a massive switch of wireless-only subscribers to landline and both services, where the majority would subscribe to a landline in addition to a cell phone. Furthermore, 76,001 households would cancel a phone service altogether. If the Lifeline program is eliminated entirely, then the majority of switching households would migrate to “wireless-only” category (2.2 million), while 401,911 households would give up the telephone service (8.8 percent of the total number of households that currently do not have telephone service). In this scenario, the elimination of the Lifeline program would have decreased telephone penetration rates only by 0.3 percent - from 95.8 to 95.5 percent in 2010.

The bottom line is, if non-eligible consumers are also able to receive a subsidy for telephone service, the penetration rates would slightly increase, but to a greater extent it would influence the telephone choices of households, not the subscription decision. Under this scenario, the overall cost of adding a marginal subscriber to telephone network (wireline or wireless) in 2010 is \$3,093 per year, while the cost of adding a marginal subscriber to the wireless network is \$5,486 per year.

6 Conclusion

An extensive body of literature has evaluated universal service and the policies implemented to achieve ubiquity of access to the historical wireline network. Over the years, the Lifeline program has undergone significant changes that include changes in benefit levels, eligibility criteria, and services supported by this program. The existing literature does not provide sufficient research on universal service policies as they have evolved. This paper seeks to fill that gap and investigates if the low-income program has acted to promote connectivity of American households and at what cost.

The results reveal that when the rules of the program are strictly enforced and only eligible households are able to enroll in Lifeline, higher amounts of the subsidy increase the propensity of households to subscribe to telephone service. The policy experiment based on

the estimates from the mixed logit model showed that if the wireless prepaid part of Lifeline were to be eliminated, 147,034 households would cancel telephone services. If the Lifeline program were to be terminated altogether, then over one million households would give up telephone services, which would have increased the rate of households without telephone service from 3.9 percent to 4.8 percent in 2010. The overall estimated cost of adding a new subscriber to the telephone network in 2010 is \$1,151 per year; while the cost of adding a new subscriber under the prepaid wireless part of Lifeline is much higher: \$2,835 per year.

Under the assumption that any household is able to enroll in the subsidy program, the results indicate that the higher Lifeline benefits encourage subscription to the telephone network. Introduction of subsidies to prepaid wireless service also has a positive impact on the likelihood of subscription to all three telephone options. However, in this setting, the subsidy to a greater extent influences the choice of telephone options, not the subscription decision. In this setting the estimated cost of adding a marginal subscriber to the telephone network in 2010 is \$3,093 per year, while the cost of adding a marginal subscriber under the wireless Lifeline initiative is \$5,486 per year.

The lesson here is that prior to the extension of the subsidy to additional services, the policy-makers should thoroughly consider the changes in the program that need to take place in order to make the program efficient in fulfilling its purpose (help marginal consumers to subscribe to telephone network). Also, given how many infra-marginal subscribers currently receive the subsidy, more research is needed to identify the eligibility filters that would efficiently target consumers that need subsidy assistance. In addition, the structure of the consumers receive the subsidy directly might be beneficial, because it would allow consumer to subscribe to only one plan.

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APPENDIX A

COMPARISON OF NHIS AND THE US CENSUS BUREAU DEMOGRAPHICS

	General Demographic Characteristics: July 2007	NHIS Sample 2007	General Demographic Characteristics: July 2008	NHIS Sample 2008	General Demographic Characteristics: July 2009	NHIS Sample 2009	General Demographic Characteristics: July 2010
SEX AND AGE							
Male	49.29%	48.35%	49.31%	48.35%	49.33%	48.19%	49.20%
Female	50.71%	51.65%	50.69%	51.65%	50.67%	51.81%	50.80%
Under 5 years	6.87%	7.71%	6.91%	7.50%	6.94%	7.37%	6.50%
5 to 9 years	6.58%	7.79%	6.60%	7.70%	6.71%	7.90%	6.60%
10 to 14 years	6.74%	7.81%	6.60%	7.50%	6.51%	7.65%	6.70%
15 to 19 years	7.12%	7.54%	7.08%	7.38%	7.02%	7.50%	7.10%
20 to 24 years	6.97%	6.49%	6.93%	6.50%	7.02%	6.19%	7.00%
25 to 34 years	13.46%	13.31%	13.46%	13.47%	13.54%	13.15%	13.20%
35 to 44 years	14.31%	14.44%	13.98%	14.01%	13.53%	13.89%	13.30%
45 to 54 years	14.55%	14.14%	14.59%	14.22%	14.52%	14.28%	14.50%
55 to 59 years	6.05%	5.54%	6.11%	5.95%	6.18%	5.91%	6.40%
60 to 64 years	4.80%	4.34%	4.97%	4.63%	5.15%	5.05%	5.50%
65 to 74 years	6.42%	6.04%	6.62%	6.10%	6.77%	6.25%	7.10%
75 to 84 years	4.32%	3.72%	4.28%	3.84%	4.28%	3.67%	4.20%
85 years and over	1.83%	1.13%	1.88%	1.21%	1.83%	1.18%	1.80%
Median age	36.6	34	36.8	34	36.8	35	37.2
18 years and over	75.50%	71.85%	75.68%	72.68%	75.72%	72.36%	76.00%
21 years and over	71.31%	67.86%	71.43%	68.61%	71.41%	68.34%	71.50%
62 years and over	15.24%	13.25%	15.41%	13.57%	15.79%	14.00%	16.30%
65 years and over	12.56%	10.89%	12.78%	11.15%	12.89%	11.11%	13.10%
18 years and over	75.50%	71.85%	75.68%	72.68%	75.72%	72.36%	76.00%
Male	36.75%	33.89%	36.86%	34.33%	36.91%	34.04%	38.91%
Female	38.75%	37.96%	38.82%	38.35%	38.81%	38.32%	37.09%
65 years and over	12.56%	10.89%	12.78%	11.15%	12.89%	11.11%	13.10%
Male	5.30%	4.73%	5.41%	4.77%	5.48%	4.90%	5.65%
Female	7.26%	6.16%	7.37%	6.38%	7.41%	6.20%	7.45%
RACE							
White	79.96%	67.29%	79.80%	66.62%	79.57%	66.15%	74.20%
Black or African	12.85%	15.51%	12.85%	15.59%	12.91%	15.75%	12.60%
American Indian	0.97%	1.16%	1.01%	1.10%	1.03%	0.81%	0.80%
Asian	4.43%	5.88%	4.46%	6.30%	4.56%	6.41%	4.80%
HISPANIC OR							
Hispanic or Latino	15.09%	24.64%	15.44%	23.85%	15.77%	25.34%	16.40%
Not Hispanic or	84.91%	75.36%	84.56%	76.15%	84.23%	74.66%	83.60%

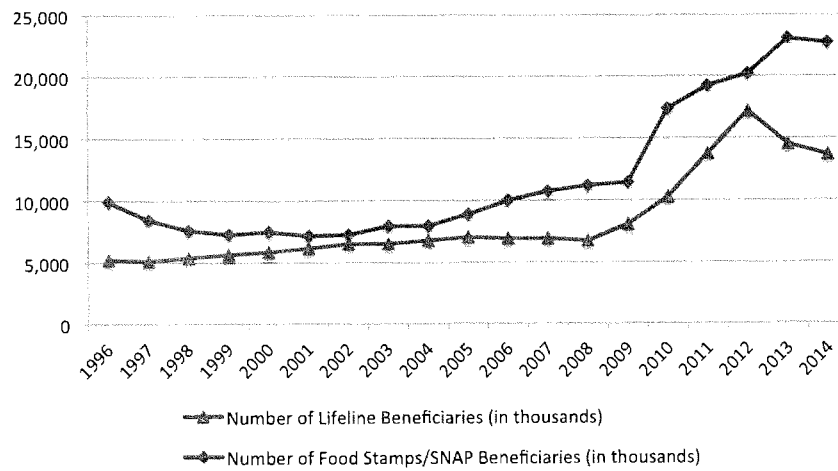
APPENDIX B

VARIABLES DESCRIPTION AND SOURCE

<i>Dependent variables</i>	<i>Description and source</i>
<i>Phone</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household subscribed to telephone service (wireline or wireless) at the time of the survey, and is zero otherwise. Source: National Health Interview Survey, annual, 2003-2010.
<i>Demographic variables</i>	<i>Description and source</i>
<i>Age of Reference person</i>	Age of reference person in the surveyed household. Source: National Health Interview Survey, annual, 2003-2010.
<i>Retired Household</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household includes retired person. Source: National Health Interview Survey, annual, 2003-2010.
<i>Ratio Working</i>	Ratio of people in the surveyed household who work. Source: National Health Interview Survey, annual, 2003-2010.
<i>Children</i>	Number of household members under age 18. Source: National Health Interview Survey, annual, 2003-2010.
<i>Student</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household includes students. Source: National Health Interview Survey, annual, 2003-2010.
<i>Limited Youth</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household includes member under 31 years old who has health limitations. Source: National Health Interview Survey, annual, 2003-2010.
<i>Limited Adult</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household includes member older than 30 years old who has health limitations. Source: National Health Interview Survey, annual, 2003-2010.
<i>Own Home</i>	This variable is dichotomous, taking on a value of 1 if someone in the surveyed household owns the home. Source: National Health Interview Survey, annual, 2003-2010.
<i>Educated Household</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household includes at least one member with college degree or higher. Source: National Health Interview Survey, annual, 2003-2010.
<i>Male Household</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household includes only males, and is zero otherwise. Source: National Health Interview Survey, annual, 2003-2010.
<i>Black Household</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household consists of Black/African American people only, and is zero otherwise.
<i>Hispanic Household</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household consists of Hispanic people only, and is zero otherwise.
<i>Native American Household</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household consists of Indian people only, and is zero otherwise.
<i>Household size</i>	Number of members in the surveyed household. Source: National Health Interview Survey, annual, 2003-2010.
<i>Population Density</i>	Population density, county level. Source: U.S. Census Bureau, annual 2003-2010.
<i>Eligible Household</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household is eligible to receive Lifeline benefits. Source: National Health Interview Survey, annual, 2003-2010.
<i>Price and income variables</i>	<i>Description and source</i>
<i>Wireline Price</i>	Source: data was supplied by Greg Rosston, Scott Savage and Bradley Wimmer, who collected it for the purposes of the research in Rosston, Savage and Wimmer (2008), adjusted for years 2003-2010.
<i>Wireless Price</i>	Source: CTIA's Wireless Industry Report Indices, 2008.
<i>CPI for Wireless Telephone Services</i>	Source: FCC "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service", annual 2002-2010.

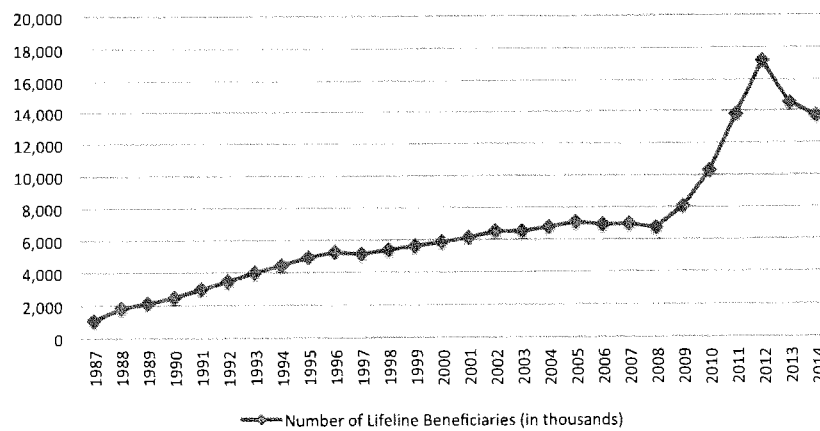
<i>CPI for Wireline Telephone Services</i>	Source: FCC "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service", annual 2002-2010.
<i>State and Local Taxes on Wireless Telephony</i>	Source: The Council on State Taxation (COST), years 2001, 2004, 2007, 2010.
<i>Income1</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household has family income below poverty threshold.
<i>Income2</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household has ratio of family income to poverty threshold between 1 and 2.
<i>Income3</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household has ratio of family income to poverty threshold between 2 and 4.
<i>Income4</i>	This variable is dichotomous, taking on a value of 1 if the surveyed household has ratio of family income to poverty threshold above 4.
	Source: National Health Interview Survey, annual, 2003-2010.
Quality/Geographic variables	Description and source
<i>Cell Sites</i>	Number of registered cell sites.
	Source: CTIA's Wireless Industry Report Indices, 2008.
Low-income program benefits	Description and source
<i>Lifeline Benefit</i>	Monthly federal and state Lifeline support.
	Source: FCC "Universal Service Monitoring Report", annual, 2003-2011.
<i>Wireless Lifeline Initiative</i>	Total amount of prepaid wireless Lifeline payments in a state.
	Source: FCC "Universal Service Monitoring Report", annual, 2003-2011.
Exclusion restrictions	Description and source
<i>Mobile Penetration</i>	Proportion of households subscribed to wireless services in an economic area, or county.
	Source: National Health Interview Survey, annual, 2003-2010.
<i>Hausman-Type Instrument</i>	Hausman-type instrument for wireline price.
	Source: data was supplied by Greg Rosston, Scott Savage and Bradley Wimmer, who collected it for the purposes of the research in Rosston, Savage and Wimmer (2008), adjusted for years 2003-2010.
<i>Families Below 135</i>	Percent of Families at or below 135 percent of the poverty level.
	Source: Current Population Survey, 2003-2010.
<i>Democrat Governor</i>	This variable is dichotomous, taking value of 1 if the surveyed household is located in a state where governor is affiliated with Democratic party.
	Source: National Governors Association, 2003-2010.

FIGURE 1
NUMBER LIFELINE VS FOODS STAMPS/SNAP BENEFICIARIES



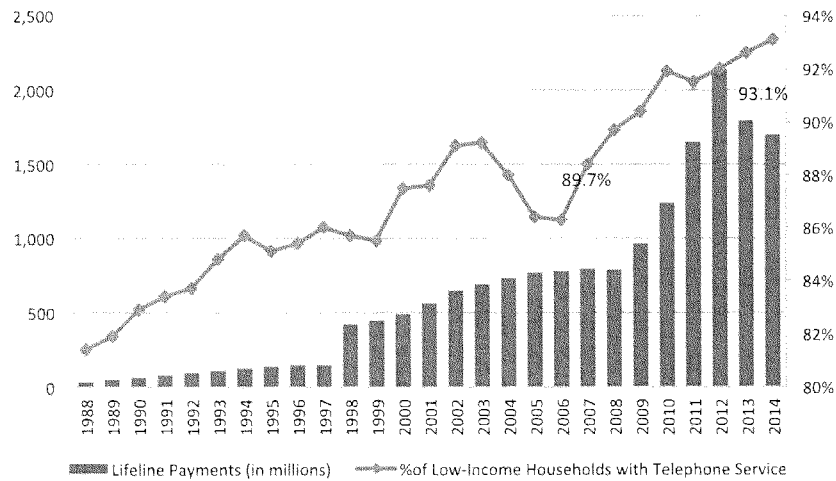
Source: FCC 2014 Universal Service Monitoring Report, Table 2.1 and Table 2.7; USDA Trends in Supplemental Nutrition Assistance Program Participation Rates: Fiscal Year 2010 to Fiscal Year 2012 (July 2014); USDA SNAP Monthly Report (July 5 2015).

FIGURE 2
NUMBER OF BENEFICIARIES IN THE FCC LIFELINE PROGRAM, 1987-2014



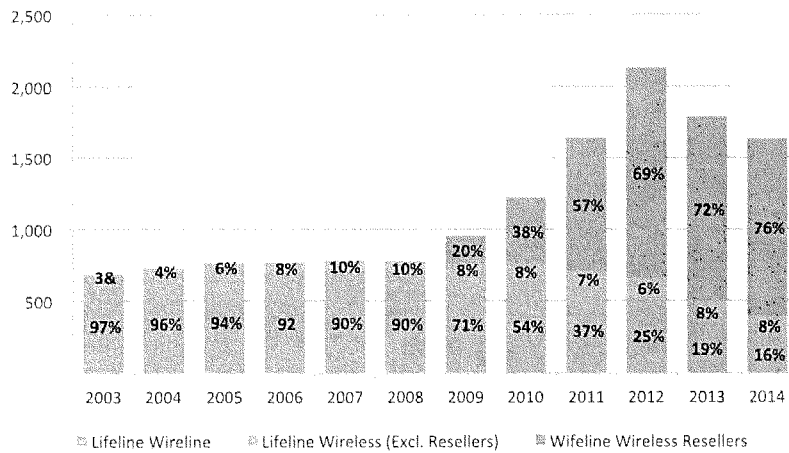
Source: FCC 2014 Universal Service Monitoring Report, Table 2.1 and Table 2.7.

FIGURE 3
LIFELINE PAYMENTS AND PERCENT OF LOW-INCOME HOUSEHOLDS
WITH TELEPHONE SERVICE, 1988-2014



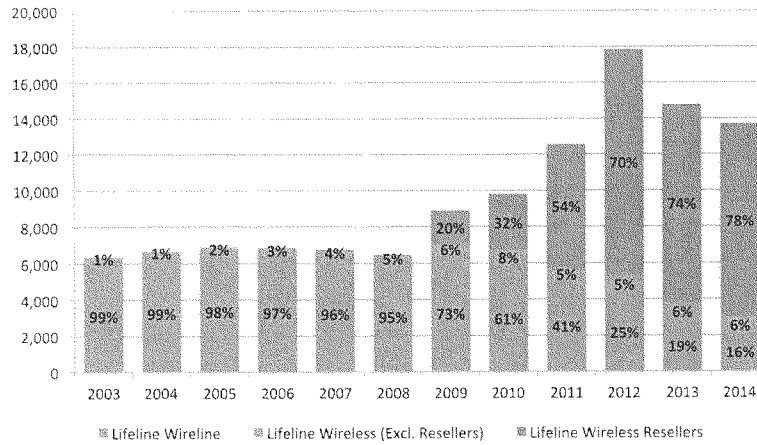
Source: FCC 2014 Universal Service Monitoring Report, Table 2.2, Table 2.7, and Table 3.2; FCC 2010 Universal Service Monitoring Report, Table 6.14.

FIGURE 4
LIFELINE PAYMENTS (IN MILLIONS), 2003-2014



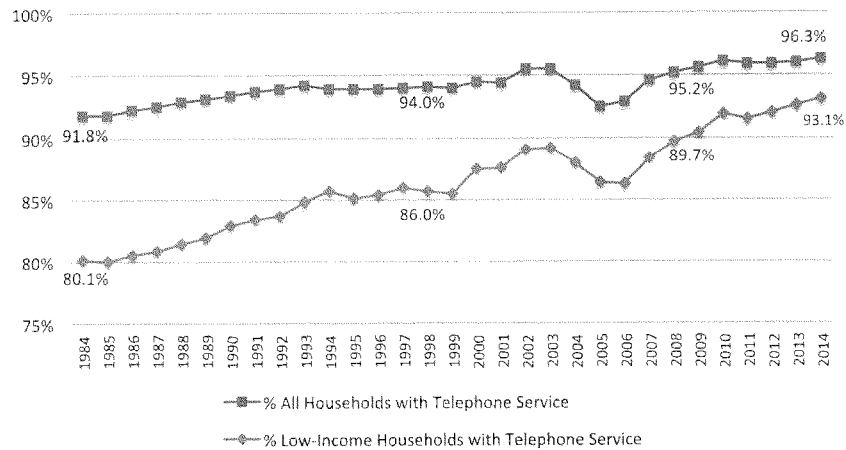
Source: FCC 2013 Universal Service Monitoring Report, "Supplementary Report Material, LI Support - by Study Area.

FIGURE 5
LIFELINE SUBSCRIBERS (IN THOUSANDS), 2003-2014



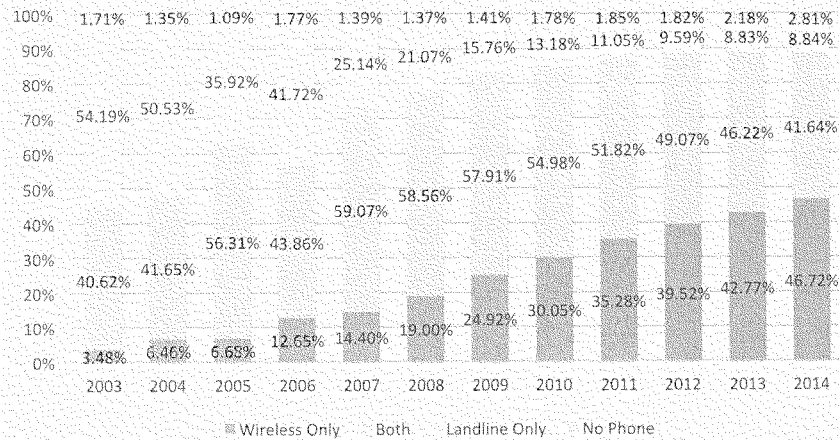
Source: FCC 2013 Universal Service Monitoring Report, "Supplementary Report Material, LI Support - by Study Area."

FIGURE 6
HOUSEHOLDS WITH TELEPHONE SERVICE, 1984-2014



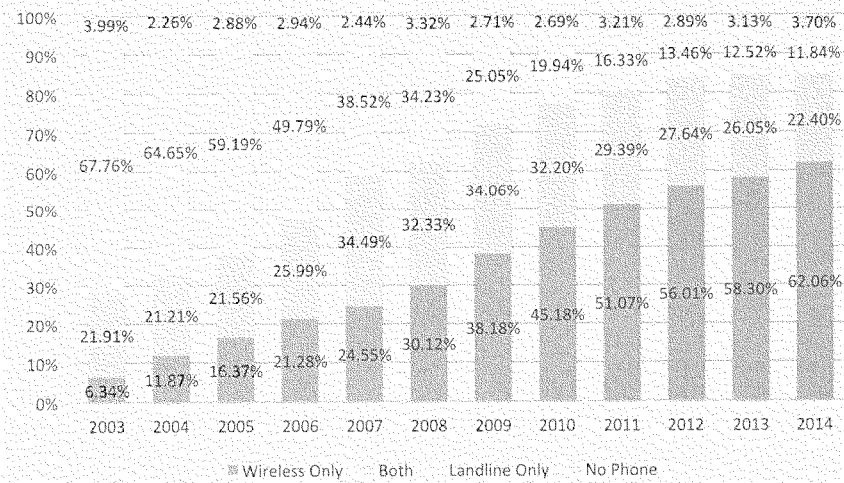
Source: FCC 2014 Universal Service Monitoring Report, Table 3.2; FCC 2010 Universal Service Monitoring Report, Table 6.14.

FIGURE 7
HOUSEHOLDS TELEPHONE SUBSCRIPTION CHOICES,
2003-2014



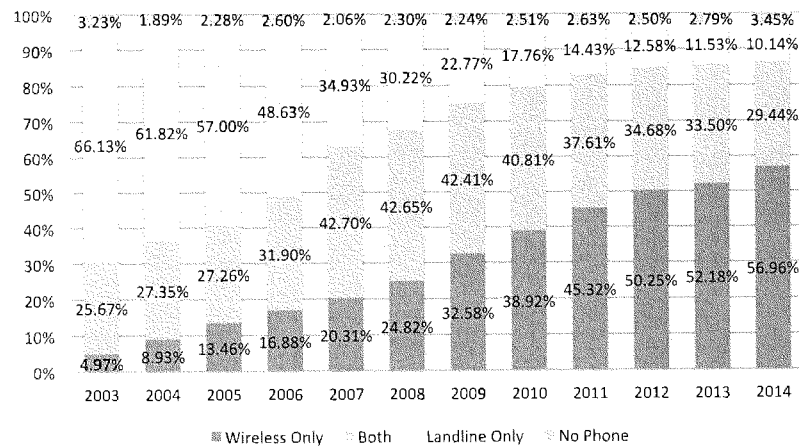
Source: National Health Interview Survey, 2003-2014.

FIGURE 8
LOW-INCOME HOUSEHOLDS TELEPHONE SUBSCRIPTION CHOICES,
2003-2014



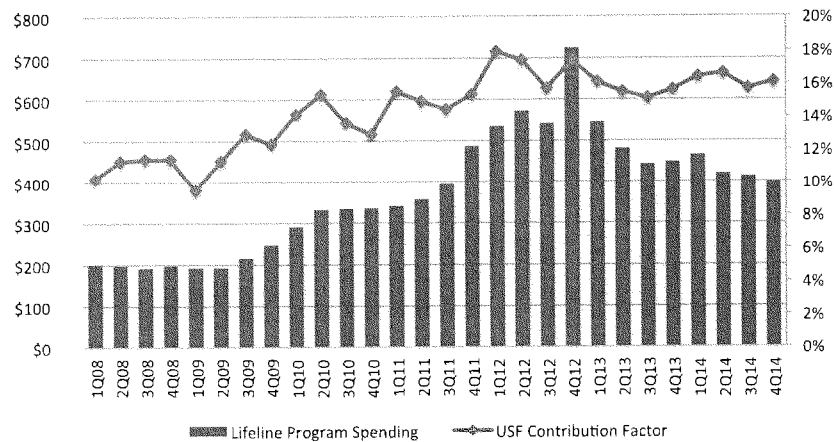
Source: National Health Interview Survey, 2003-2014.

FIGURE 9
ELIGIBLE HOUSEHOLDS TELEPHONE SUBSCRIPTION CHOICES,
2003-2014



Source: National Health Interview Survey, 2003-2014.

FIGURE 10
GROWTH OF THE LIFELINE PROGRAM SPENDING AND USF CONTRIBUTION FACTOR,
1Q 2009-4Q 2014



Source: FCC 2014 Universal Service Monitoring Report, Table 1.6 and Table 1.11; FCC 2013 Universal Service Monitoring Report, Table 1.9 and Table 1.11; FCC 2012 Universal Service Monitoring Report, Table 1.9; FCC 2010-2011 Universal Service Monitoring Reports, Table 1.10. This figure is also available in the IIA White Paper (November 6, 2014).

TABLE 1
AMOUNT OF LIFELINE SUPPORT PER STATE, 2010

<i>State</i>	<i>Total Lifeline Support</i>	<i>State</i>	<i>Total Lifeline Support</i>
Alabama	\$13.56	Nebraska	12.06
Alaska	13.45	Nevada	10.98
Arizona	11.76	New Hampshire	11.83
Arkansas	12.03	New Jersey	13.23
California	11.75	New Mexico	13.20
Colorado	13.46	New York	13.23
Connecticut	11.31	North Carolina	13.26
Delaware	12.97	North Dakota	11.23
District of Columbia	10.80	Ohio	12.58
Florida	13.44	Oklahoma	8.43
Georgia	13.45	Oregon	13.46
Hawaii	8.25	Pennsylvania	11.22
Idaho	13.30	Puerto Rico	13.50
Illinois	8.74	Rhode Island	13.37
Indiana	7.94	South Carolina	13.63
Iowa	7.09	South Dakota	8.42
Kansas	11.55	Tennessee	13.30
Kentucky	13.53	Texas	12.62
Louisiana	11.54	Utah	13.32
Maine	13.25	Vermont	13.23
Maryland	12.64	Virgin Islands	13.50
Massachusetts	13.35	Virginia	12.99
Michigan	11.56	Washington	11.24
Minnesota	9.76	West Virginia	13.16
Mississippi	13.39	Wisconsin	10.99
Missouri	11.93	Wyoming	13.50
Montana	12.35	Total	\$12.07

Source: FCC 2011 Universal Service Monitoring Report, Table 2.3.

TABLE 2
PERCENT OF HOUSEHOLDS WITHOUT TELEPHONE SERVICE,
2003-2010

<i>Year</i>	<i>Full NHIS sample</i>	<i>Sample used for estimation</i>
2003	3.59%	1.71%
2004	3.48%	1.35%
2005	3.52%	1.09%
2006	3.82%	1.77%
2007	2.90%	1.39%
2008	2.87%	1.37%
2009	2.52%	1.41%
2010	2.64%	1.78%

TABLE 3
COMPARISON OF PENETRATION RATES BY LEVEL OF LIFELINE ASSISTANCE

<i>Lifeline Category</i>	<i>Low-Income Households</i>		<i>All Households</i>	
	<i>Penetration Mar-97</i>	<i>Penetration Mar-09</i>	<i>Penetration Mar-97</i>	<i>Penetration Mar-09</i>
<i>Full or High Assistance</i>	85.60%	90.20%	93.70%	95.30%
<i>Intermediate</i>	87.20%	91.80%	95.00%	96.60%
<i>Basic or Low</i>	86.20%	89.10%	93.90%	95.20%

Source: FCC 2010 Universal Service Monitoring Report, Table 6.7.

TABLE 4
DESCRIPTIVE STATISTICS, 2003-2010

<i>Demographic Variables and Attributes</i>	<i>Percent</i>
<i>Income Groups</i>	
<i>Income1</i>	14.93%
<i>Income2</i>	19.27%
<i>Income3</i>	29.62%
<i>Income4</i>	39.19%
<i>Own Home</i>	62.50%
<i>Household Size</i>	
<i>1 person</i>	25.56%
<i>2 people</i>	31.47%
<i>3 people</i>	16.61%
<i>4 people</i>	14.88%
<i>5 or more people</i>	11.48%
<i>Mean Number of Children</i>	0.74
<i>Chosen Phone Option</i>	
<i>No Phone</i>	1.17%
<i>Landline Only</i>	28.82%
<i>Wireless Only</i>	16.46%
<i>Both</i>	53.54%
<i>Eligible Households</i>	24.24%
<i>Black</i>	14.67%
<i>Hispanic</i>	16.46%
<i>Native American</i>	0.67%
<i>Wireline Price</i>	\$16.81
<i>Wireless Price</i>	\$58.55
<i>Lifeline benefit</i>	\$11.48

TABLE 5
PARAMETER ESTIMATES FOR MIXED LOGIT MODEL
(PERFECT ENFORCEMENT)

VARIABLES	Both	Landline Only	Wireless
<i>Price</i>		-0.007***	
		(0.002)	
<i>Price*Income2</i>		-0.011***	
		(0.003)	
<i>Price*Income3</i>		-0.004	
		(0.002)	
<i>Price*Income4</i>		-0.003	
		(0.003)	
<i>Price St. Error</i>		0.003	
		(0.004)	
Income			
<i>Income2</i>	1.319***	0.428***	-0.135
	(0.246)	(0.088)	(0.193)
<i>Income3</i>	1.336***	0.388***	-0.836***
	(0.242)	(0.105)	(0.195)
<i>Income4</i>	1.745***	0.266**	-0.904***
	(0.254)	(0.120)	(0.207)
Demographic characteristics			
<i>Retired Household</i>	0.450***	0.649***	-0.243**
	(0.101)	(0.101)	(0.107)
<i>Age of Reference Person</i>	0.010***	0.022***	-0.018***
	(0.001)	(0.001)	(0.001)
<i>Own House</i>	1.026***	0.698***	-0.175***
	(0.057)	(0.057)	(0.058)
<i>Black Household</i>	-0.126*	-0.069	-0.348***
	(0.065)	(0.065)	(0.067)
<i>Hispanic Household</i>	-0.570***	-0.212***	-0.427***
	(0.060)	(0.060)	(0.062)
<i>Native American Household</i>	-0.727***	-0.645***	-0.584***
	(0.172)	(0.173)	(0.178)
<i>Household Size</i>	0.246***	0.054	-0.036
	(0.035)	(0.035)	(0.036)
<i>Male Household</i>	-0.799**	-0.504***	-0.022
	(0.060)	(0.060)	(0.061)
<i>Educated Household</i>	0.436***	0.134*	0.167**
	(0.069)	(0.069)	(0.070)
<i>Ratio Working</i>	0.174**	-0.219***	0.683***
	(0.079)	(0.079)	(0.082)
<i>Limited Youth</i>	0.330***	0.112	0.280***
	(0.092)	(0.093)	(0.095)
<i>Student</i>	0.480***	0.178	0.582***
	(0.108)	(0.109)	(0.110)
<i>Children</i>	0.072	0.150***	0.051
	(0.046)	(0.047)	(0.047)
<i>Eligible</i>	-1.330**	-1.052*	-3.776***
	(0.594)	(0.593)	(0.595)
<i>Population Density</i>	0.065***	0.032**	-0.036**
	(0.015)	(0.014)	(0.014)
Low Income Program			
<i>Lifeline Benefit x Eligible</i>		0.086*	
		(0.050)	
<i>Prepaid Wireless Lifeline Payments x Eligible</i>	0.004	0.005*	0.033***
	(0.003)	(0.003)	(0.003)

Quality Control			
<i>Cellsite</i>	0.321	-1.029***	4.297***
	(0.344)	(0.340)	(0.370)
Control Functions			
<i>Lifeline Benefit Residual</i>		-0.118**	
		(0.054)	
<i>Price Residual</i>		0.000	
		(0.004)	
Constant	-2.436	14.444***	-47.536***
	(4.154)	(4.087)	(4.470)
<i>Year Dummies</i>		yes	
<i>State Dummies</i>		no	
<i>Observations</i>		167,397	
<i>Log-Likelihood</i>		-134,190	
<i>McFadden R²</i>		0.231	

Note: The reference category is "No Phone." The exclusion restrictions used in the first stage are: Hausman-Type Instrument, Mobile Penetration, and Democrat Governor. Variables that have one coefficient for all alternatives are alternative-specific (e.g., Price).

Standard errors in parentheses; significant at: * = 0.10, ** = 0.05, *** = 0.01

TABLE 6
ACTUAL AND PREDICTED FREQUENCIES OF ALTERNATIVES (PERCENT)

	<i>No Phone</i>	<i>Both</i>	<i>Landline Only</i>	<i>Wireless Only</i>
<i>Actual Shares</i>	1.174%	53.544%	28.821%	16.460%
<i>Predicted Shares</i>	1.175%	53.544%	28.822%	16.460%

TABLE 7
EFFECTS OF PRICE/POLICY CHANGES (NUMBER OF HOUSEHOLDS)

<i>Policy Change</i>	<i>No Phone</i>	<i>Both</i>	<i>Landline Only</i>	<i>Wireless Only</i>
<i>Turn Off Wireless Lifeline Initiative</i>	147,034	988,944	616,658	-1,752,635
<i>Turn Off Lifeline and Wireless Lifeline Initiative</i>	1,080,055	-117,325	-334,431	-628,297

TABLE 8
PARAMETER ESTIMATES FOR MIXED LOGIT MODEL
(INEFFECTIVE ENFORCEMENT)

VARIABLES	Both	Landline	Wireless
<i>Price</i>		-0.015***	
		(0.003)	
<i>Price*Income2</i>		-0.007**	
		(0.003)	
<i>Price*Income3</i>		0.001	
		(0.003)	
<i>Price*Income4</i>		0.003	
		(0.003)	
<i>sd.price</i>		-0.000	
		(0.005)	
Income			
<i>Income2</i>	1.058***	0.362***	-0.850***
	(0.260)	(0.090)	(0.204)
<i>Income3</i>	0.914***	0.283***	-1.731***
	(0.255)	(0.106)	(0.204)
<i>Income4</i>	1.249***	0.145	-1.867***
	(0.266)	(0.121)	(0.216)
Demographic characteristics			
<i>Retired Household</i>	0.428***	0.631***	-0.322***
	(0.101)	(0.100)	(0.108)
<i>Age of Reference Person</i>	0.010***	0.022***	-0.018***
	(0.001)	(0.001)	(0.001)
<i>Own House</i>	1.027***	0.699***	-0.194***
	(0.056)	(0.057)	(0.058)
<i>Black Household</i>	-0.113*	-0.055	-0.311***
	(0.064)	(0.065)	(0.067)
<i>Hispanic Household</i>	-0.573***	-0.218***	-0.454***
	(0.060)	(0.060)	(0.062)
<i>Native American Household</i>	-0.733***	-0.650***	-0.624***
	(0.171)	(0.173)	(0.182)
<i>Household Size</i>	0.248***	0.057	-0.033
	(0.035)	(0.0356)	(0.036)
<i>Male Household</i>	-0.800**	-0.505***	-0.027
	(0.060)	(0.0602)	(0.061)
<i>Educated Household</i>	0.432***	0.132*	0.144**
	(0.069)	(0.0699)	(0.070)
<i>Ratio Working</i>	0.153**	-0.235***	0.587***
	(0.078)	(0.0788)	(0.082)
<i>Limited Youth</i>	0.332***	0.113	0.313***
	(0.092)	(0.0930)	(0.096)
<i>Student</i>	0.457***	0.164	0.518***
	(0.107)	(0.1090)	(0.111)
<i>Children</i>	0.070	0.147***	0.027
	(0.0468)	(0.0470)	(0.048)
<i>Eligible</i>	-0.318***	-0.048	-3.766***
	(0.076)	(0.076)	(0.081)
<i>Population Density</i>	0.081***	0.046***	-0.007
	(0.015)	(0.0149)	(0.015)
Low Income Program			
<i>Lifeline Benefit</i>		0.024***	
		(0.002)	
<i>Prepaid Wireless Lifeline Payments</i>	0.010***	0.008***	0.010***
	(0.002)	(0.002)	(0.002)

Quality Control			
<i>Cellsite</i>	0.229	-1.079***	4.220***
	(0.337)	(0.335)	(0.367)
Control Functions			
<i>Lifeline Benefit Residual</i>		-0.062***	
		(0.005)	
<i>Price Residual</i>		0.007***	
		(0.002)	
Constant	-1.182	14.777***	-45.764***
	(4.070)	(4.030)	(4.433)
Year Dummies		yes	
State Dummies		no	
Observations		167,397	
Log-Likelihood		-131.420	
McFadden R²		0.247	

Note: The reference category is "no phone." The exclusion restrictions used in the first stage are: Hausman-Type Instrument, Mobile Penetration, and Families Below 135. Variables that have one coefficient for all alternatives are alternative-specific (e.g., Price).

Standard errors in parentheses; significant at: * = 0.10, ** = 0.05, *** = 0.01

TABLE 9
ACTUAL AND PREDICTED FREQUENCES OF ALTERNATIVES (PERCENT)

	<i>No Phone</i>	<i>Both</i>	<i>Landline Only</i>	<i>Wireless Only</i>
<i>Actual Shares</i>	1.174%	53.544%	28.821%	16.460%
<i>Predicted Shares</i>	1.174%	53.544%	28.821%	16.460%

TABLE 10
EFFECTS OF PRICE/POLICY CHANGES (NUMBER OF HOUSEHOLDS)

<i>Policy Change</i>	<i>No Phone</i>	<i>Both</i>	<i>Landline Only</i>	<i>Wireless Only</i>
<i>Turn Off Wireless Lifeline Initiative</i>	76,001	409,361	146,434	-631,796
<i>Turn Off Lifeline and Wireless Lifeline Initiative</i>	401,911	-1,820,017	-778,514	2,196,622

United States Senate

WASHINGTON, DC 20510

July 19, 2017

The Honorable Ajit V. Pai
Chairman
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

Ms. Vickie Robinson
Acting CEO and General Counsel
Universal Service Administrative Company
700 12th Street NW, Suite 900
Washington, DC 20005

Dear Chairman Pai and Ms. Robinson:

We are writing with regard to the Lifeline program, which helps provide basic telecommunications and broadband services to eligible low-income Americans who may not otherwise be able to afford these services. The Lifeline program is one important component of the Federal Communications Commission's (FCC) commitment to the policy of universal service¹ and affords Americans in every state the opportunity to stay connected and succeed in today's interconnected digital economy. Unfortunately, a recently released report from the Government Accountability Office (GAO) documents troubling instances of waste, fraud, and abuse in the Lifeline program.² We are concerned that the risks to program integrity outlined in this report threaten a service that is essential to ensuring that low-income Americans can connect to employment opportunities, family members, and emergency services.

Current policy places the responsibility of verifying program eligibility with the diffuse network of over 2,000 Eligible Telecommunications Carriers (ETCs), who often subcontract further with third-party entities in order to approve or deny Lifeline benefits.³ In conducting an analysis of subscriber data in select states, however, GAO was unable to independently verify the eligibility of a considerable number of Lifeline beneficiaries.⁴ FCC's ongoing development of a National Verifier eligibility system is a positive sign, but both FCC and the Universal Service Administrative Company (USAC) are well-positioned to take immediate steps to improve provider oversight and overall program integrity.

Given the problems identified in the current administration of the Lifeline program, we ask that you provide answers to the following questions as soon as possible but no later than August 18, 2017:

1. How do FCC and USAC measure the effectiveness of the various compliance and enforcement mechanisms that have been developed to improve oversight of Lifeline providers and sales agents?

¹ See 47 U.S.C. § 254.

² Government Accountability Office, *Additional Action Needed to Address Significant Risks in FCC's Lifeline Program* (May 2017) (GAO-17-538).

³ *Id.*, p. 15.

⁴ *Id.*, p. 37.

The Honorable Ajit V. Pai and Ms. Vickie Robinson
 July 19, 2017
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- a. What training and guidance on the Lifeline program is offered to or required for ETCs and sales agents?
 - b. Has FCC instituted criteria and timelines for evaluating individual ETC compliance plans?
 - c. What is the extent of FCC and USAC's oversight of third-party entities contracted by ETCs to determine program eligibility?
 - d. How many times has FCC determined that an ETC is no longer qualified to provide Lifeline benefits, and what is the process for making this determination?
2. What steps are being taken to ensure that ETCs and subcontractors are aware of the federal and state databases and other information available to them in order to determine program eligibility?
 3. What is your projected timeline for testing and implementing the National Verifier system?
 - a. What are your projected costs?
 - b. What impediments, if any, have you encountered with state and local jurisdictions in acquiring the information you believe is necessary to implement the National Verifier system?
 - c. To what extent will the existing National Lifeline Accountability Database (NLAD) be utilized in the development and implementation of the National Verifier system?
 4. Chairman Pai's July 11, 2017, letter to USAC regarding the Lifeline program establishes a number of new USAC review and audit requirements.⁵ GAO's report, however, states that in at least one instance, USAC's routine audit functions have been constrained by "limited audit resources."⁶ Is USAC adequately resourced and staffed to conduct the reviews and audits of ETC and subscriber data outlined in the July 11 letter?

Diligent and continuous efforts to improve the integrity of the Lifeline program will ensure that the funds collected from providers and consumers are administered appropriately and that all Americans stand to benefit from the opportunities of the global digital economy.


⁵ Letter from Ajit V. Pai, Chairman, Federal Communications Commission, to Vickie Robinson, Acting CEO and General Counsel, Universal Service Administrative Company (July 11, 2017).

⁶ Government Accountability Office, *supra* at p. 28.


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If you have any questions about this request, please contact Sydney Paul of Senator Peters's staff at Sydney_Paul@peters.senate.gov or Lot Kwarteng of Senator Stabenow's staff at Lot_Kwarteng@stabenow.senate.gov. We share your goal of reducing waste and fraud in the administration of federal programs and look forward to your prompt response.

Sincerely,



Gary C. Peters
United States Senator



Debbie Stabenow
United States Senator



August 18, 2017

Senator Gary C. Peters
United States Senate
Hart Senate Office Building, Suite 724
Washington, DC 20510

Senator Debbie Stabenow
United States Senate
Hart Senate Office Building, Suite 731
Washington, DC 20510

Dear Senator Peters and Senator Stabenow:

Thank you for your July 19, 2017 letter concerning the Universal Service Fund's (USF) Lifeline program and the related report issued by the Government Accountability Office (GAO). The Universal Service Administrative Company (USAC) is dedicated to the important work of ensuring access to vital communications and broadband services while combatting waste, fraud, and abuse in the USF programs. We welcome your questions and interest in the Lifeline program.

USAC has been working diligently on the development and launch of the National Lifeline Eligibility Verifier (National Verifier), which will remove verification of subscriber eligibility from the service providers and place it in USAC's control as the neutral administrator. As detailed in our response below, we are working with the Federal Communications Commission (FCC or Commission) to announce the initial five states to be rolled into the National Verifier at the end of this year. The National Verifier will be a vital tool in helping to ensure program integrity. In addition, USAC has continued to take a multi-pronged approach to strengthening Lifeline program integrity and increasing compliance. Specifically, USAC has continued to improve the National Lifeline Accountability Database (NLAD) by refining its processes, adding additional data collection to support investigations into non-compliance, and increasing the use of data for analysis and detection of potentially improper actions. In response to Chairman Pai's July 11, 2017 letter, USAC also developed a detailed plan to study the results issued by the GAO and are working to implement immediate changes. In addition to these internal improvements, USAC has been working to develop a deeper partnership with the FCC to improve communications and transparency, including better coordination on referring possible non-compliance to the appropriate offices or bureaus of the FCC for further investigation and enforcement.

Below are USAC's responses to your specific questions. This letter details how we are working to measure compliance and enforcement mechanisms, ensure Lifeline service providers and agents are aware of available state and federal databases, develop and implement the National Verifier, and respond to the GAO's findings and recommendations. We look forward to continued discussions with you on these issues.

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1. *How do FCC and USAC measure the effectiveness of the various compliance and enforcement mechanisms that have been developed to improve oversight of Lifeline providers and sales agents?*

USAC's Lifeline Program team, Internal Audit Division (IAD) and Compliance and Risk group in the Office of General Counsel (OGC) have staff focused on monitoring Lifeline service provider compliance with the FCC's rules and requirements. Pursuant to the FCC's rules, Lifeline eligible telecommunications carriers (ETCs) may only claim Lifeline support for eligible subscribers.¹ In addition, Lifeline ETCs are required to enter each potential subscriber into the NLAD before claiming the subscriber for reimbursement in order to ensure the individual is not already receiving service.² The FCC's rules also require ETCs to retain all documents they relied upon to verify a subscriber's eligibility, which USAC and the FCC review through audits and other checks to ensure compliance.³

Lifeline Program Team

The Lifeline Program team generates monthly operational metrics (discussed below) that are used to identify possible non-compliance with program rules by Lifeline ETCs. Among other efforts and developments, USAC would like to highlight three key metrics used by the Lifeline Program team to measure effectiveness of compliance and enforcement mechanisms.

Variance Between FCC Form 497 and NLAD Subscriber Numbers: ETCs must enroll all subscribers into the NLAD system and request reimbursement for Lifeline support for eligible subscribers using the FCC Form 497. Generally, the number of subscribers in the NLAD and the number of subscribers listed on the FCC Form 497 should be approximately the same; however, the Lifeline Program team has identified variances between these numbers in some cases. As such, the team monitors the variances and then prioritizes such Lifeline ETCs with reporting discrepancies for appropriate follow up individually. From January through June 2017, USAC resolved issues with approximately 30 Lifeline ETCs who claimed more subscribers on the FCC Form 497 than were enrolled in the NLAD.

Effective with the January 2018 data month (February 2018 disbursements), all Lifeline program reimbursement claims will be calculated based on the subscribers recorded in the NLAD, eliminating the FCC Form 497, and therefore eliminating the risk of this variance. Beginning in September 2017, and until the FCC Form 497 is eliminated, USAC will reject any FCC Form 497 that is filed with subscriber counts in excess of the NLAD. Upon elimination of the FCC Form 497, USAC will continue to monitor activity in the NLAD to address any unusual trends in reimbursements.

¹ 47 C.F.R. § 54.407(a).

² 47 C.F.R. § 54.404(b).

³ 47 C.F.R. § 54.417.

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Number of Manual Disputes Submitted to NLAD: The FCC requires that all subscribers be entered into the NLAD to verify identity and address information as well as perform duplicate checking. Since the NLAD's automated processes cannot verify all subscriber identities or addresses, a dispute resolution process allows subscribers to prove their identities or addresses through a manual review of documentation.⁴ The manual review of documentation is currently conducted by Lifeline ETCs, but will transition to the National Verifier. The Lifeline Program team reviews the percent of enrolled Lifeline subscribers requiring manual review of documentation, including analyzing the data to detect unusual trends or anomalies that might indicate non-compliant behavior by the Lifeline ETCs. Although these manual disputes are permissible under the FCC's rules, they do introduce risk to the program and must be monitored closely. When USAC detects unusual trends or anomalies, it takes corrective action, as appropriate, such as: reaching out to the Lifeline ETC for an explanation; notifying the FCC to collaborate on possible next steps, such as a targeted audit of a Lifeline ETC; or referring the matter to the FCC's Office of Inspector General (OIG) or Enforcement Bureau (EB). In addition to monitoring these metrics, USAC will begin requesting documentation from ETCs that shows they reviewed eligibility documentation for manual disputes in compliance with the FCC's rules starting in the third quarter of 2017.



In addition to these processes, USAC has also identified ETCs who have used the system for unauthorized purposes. [REDACTED]

[REDACTED] USAC was able to identify an ETC that had obtained a list of consumers from a particular eligibility program and was using the NLAD to look each consumer up for marketing purposes. This was a clear violation of the NLAD terms and conditions, which prohibit using the database for any purpose beyond those set forth in the FCC rules, as well as a violation of the consumers' privacy, and USAC worked with the FCC to follow up appropriately.

⁴ *Lifeline and Link Up Reform and Modernization, et al.*, WC Docket No. 11-42, *et al.*, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656, 6749, para. 217 (2012).

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Sales Agent Tracking Process: In addition to the three metrics discussed above, USAC's Lifeline Program team is implementing a sales agent tracking process in its database systems. Beginning with the launch of the National Verifier in five states in December 2017, sales agent activity will be tracked with each transaction. In addition, USAC will build functionality to collect information on sales agents and employees who interact with Lifeline subscribers and perform enrollment and transfer functions within the NLAD. This functionality, at a minimum, will have the following attributes: (1) ability to generate a unique identifier that is linked to the service provider identification number (SPIN) and study area code (SAC) combination; (2)

; (3) lockout agents who perform too many invalid enrollment attempts; and (4)

Internal Audit Division

USAC's IAD also plays an important role in monitoring the effectiveness of compliance for Lifeline ETCs and has recently enhanced its audit processes to improve and better address high-risk compliance areas. IAD is responsible for conducting in-depth audits of Lifeline ETC compliance with the rules. Specifically, IAD, in consultation with the FCC's Office of Managing Director (OMD) and Wireline Competition Bureau (WCB), jointly developed a new audit program that is designed to focus audit resources on USF participants with the highest risk of non-compliance with FCC rules. Starting with the Fiscal Year 2016 audit plan, the audit plans are now "risk-based" and centered on the following key principles: (1) detect and deter noncompliance; (2) promote and enhance compliance; (3) reduce burden on lower risk ETCs; and (4) advance the audit selection process and procedures. Because USAC IAD's audit methodology recently shifted from a random to risk-based approach, there is insufficient data to provide an accurate conclusion or make inferences at this time regarding the success of the risk-based audit plan. However, IAD will continue to analyze the results of the risk-based audits to further clarify the approach and ensure the audit plan provides the greatest value and oversight of the USF.

In addition to audits, IAD performs assessments through its Payment Quality Assurance (PQA) reviews to assist the FCC in meeting its federal reporting obligations.⁵ In conjunction with OMD, IAD's PQA team develops procedures and performs payment verification on a statistically valid sample of selected Lifeline ETCs to determine if these payments were made in accordance with FCC rules. IAD uses the results of these assessments to calculate estimated improper payment rates and provides this information to the FCC. Unlike the risk-based audits, PQA does not measure the effectiveness of reviews based on the outcomes of the ETCs selected for review, but rather measures its effectiveness based on the operational impact on USAC and

⁵ See Improper Payments Elimination and Recovery Act of 2010, Pub. L. No. 111-204, 124 Stat. 2224, as amended by the Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. No. 112-248, 126 Stat. 2390 (Jan. 10, 2013).

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its stakeholders. Further details regarding IAD's audit functions and efforts are set forth below in response to question 4.

In addition, in 2016, USAC established its "circle of life" initiative. This initiative was designed to provide feedback to USAC and external stakeholders about audit results in an attempt to reduce non-compliance. Through this initiative, IAD provides USAC Financial Operations and Lifeline Program teams with detailed information on the findings identified during audits and PQA assessments, and those teams use this information to prepare action plans designed to reduce future instances of those findings thus improving program integrity and success. USAC's Office of General Counsel tracks the progress of these action plans and reports this information to the FCC on an annual basis.

Compliance and Risk Group

Finally, USAC's Compliance and Risk group works to facilitate risk discussions and coordinate enforcement actions with all divisions of USAC. Among other things, this team manages the circle of life initiative, works with program teams, including Lifeline, to develop corrective actions plans, and manages whistleblower reports and referrals. This work is integral to our efforts to track compliance and enforcement and track our effectiveness in ensuring compliance and facilitating enforcement in our role as the USF administrator.

- a. What training and guidance on the Lifeline program is offered to or required for ETCs and sales agents?*

USAC provides various voluntary training opportunities to Lifeline ETCs, as well as numerous outreach efforts. These trainings and outreach efforts are used primarily to remind providers of existing processes, educate providers about new or changing processes, and highlight how to avoid common mistakes or errors made by providers in the Lifeline program. These training efforts include: (1) monthly webinars; (2) regular newsletters; (3) website updates including common audit findings; and (4) user guides for the NLAD and other Lifeline systems.

- b. Has FCC instituted criteria and timelines for evaluating individual ETC compliance plans?*

It is USAC's understanding that the FCC will respond separately to this question.

- c. What is the extent of FCC and USAC's oversight of third-party entities contracted by ETCs to determine program eligibility?*

Regarding USAC's oversight of third-party entities contracted by ETCs, IAD includes the review of a sample of subscribers in its audits and PQA assessments and requires ETCs to provide copies of the documentation obtained by either the ETC or their third-party contractors to determine the selected subscribers' eligibility for the Lifeline program. IAD examines this

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documentation to determine whether the ETC or its third-party contractor properly determined the selected subscribers' eligibility for the Lifeline program in compliance with FCC rules. If IAD identifies any situation where the subscribers' eligibility was not properly determined, an audit finding is issued with a recommended recovery for each of the subscribers and a requirement that the ETC de-enroll the subscribers from the Lifeline program. If significant anomalies or non-compliance are identified during the audit or PQA, IAD works with USAC's OGC to refer these findings to the FCC's OIG and EB.

USAC will add additional technical functions to the NLAD, which will allow USAC to identify and track data entries by sales agents, including third-party contractors. Once the data is entered into the NLAD,

If IAD identifies any situations where the subscribers' eligibility was not properly determined, an audit finding will be issued with a recommended recovery for each of the subscribers and a requirement that the ETC de-enroll these subscribers from the Lifeline program. Further, if significant anomalies or non-compliance are identified, IAD will work with USAC's OGC to refer such matters to the FCC's OIG and EB.

- d. How many times has FCC determined that an ETC is no longer qualified to provide Lifeline benefits, and what is the process for making this determination?*

It is USAC's understanding that the FCC will respond separately to this question.

- 2. What steps are being taken to ensure that ETCs and subcontractors are aware of the federal and state databases and other information available to them in order to determine program eligibility?*

USAC is not aware of any federal databases that are currently accessible to ETCs for purposes of determining subscriber eligibility for the Lifeline program. Regarding state databases, USAC is leveraging the relationships it has built through efforts to establish the National Verifier to work with state agencies to compile a comprehensive list of those databases available to Lifeline ETCs to verify Lifeline subscriber eligibility. By the end of September 2017, USAC will post a listing on its website that indicates whether a state has such a database, and what agency can be contacted for access to the database. USAC will also email Lifeline ETCs regarding the availability of this list and will send email reminders periodically to encourage ETCs' use of these databases as required under the FCC's rules. USAC will also work routinely with state agencies to keep the list updated until such time that the National Verifier is fully implemented nationwide.

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3. *What is your projected timeline for testing and implementing the National Verifier system?*

The FCC directed USAC to implement the National Verifier in phases beginning in December 2017 through December 2019.⁶ Pursuant to the *2016 Lifeline Modernization Order*, USAC is currently preparing for the initial launch of the system in at least five states in December 2017.⁷ This will begin a “soft launch” period, during which the system is available but not required for use by Lifeline ETCs in those states. The soft launch allows ETCs time to ensure that their processes and systems are aligned with the National Verifier. USAC will also independently verify the eligibility of all existing subscribers enrolled in the Lifeline program in the applicable states during the soft launch. In March 2018, the soft launch period will close, and USAC will “hard launch” the system, making it required for use by all providers in the applicable states. Leading up to these launch dates, USAC is tracking against several key milestones to ensure a successful implementation. In the first half of this year, USAC conducted a series of feedback sessions with providers, state agencies, and consumers and consumer groups to solicit input for consideration in the processes and system design. By the end of August 2017, USAC and the FCC will announce the states included in the initial launch, as well as additional details on technical or process requirements, so that providers in those states may begin to prepare. In October 2017, USAC will begin training the users of the National Verifier on the processes and systems.

This initial launch offers USAC and the FCC the opportunity to learn what works well during implementation and where refinements to the project approach would benefit future launches. As a result, the specific timelines for 2018 and 2019 are not yet defined and will be informed by the completion of the first launch. The following website provides routine updates and access to various resources to stay abreast of National Verifier project information, including the National Verifier Plan (July 31, 2017 version), which provides a more detailed overview of the project: <http://www.usac.org/li/tools/national-verifier/default.aspx>.

a. *What are your projected costs?*

The initial launch of the National Verifier, through March 2018, is projected to cost approximately \$21 million. This includes costs associated with the outsourced systems integrator procured to develop the National Verifier system, the business process outsourcing vendor that USAC is procuring to stand up the manual review, the call center processes that will support the National Verifier, and USAC employees. Although this predominantly reflects actual and anticipated build costs, this estimate includes a small portion of production processing during the soft launch period. Because the initial launch will inform future implementation

⁶ *Lifeline and Link Up Reform and Modernization, et al.*, WC Docket No. 11-42, *et al.*, Third Report and Order, Further Report and Order, and Order on Reconsideration, 31 FCC Rcd 3962, 4020, para. 164 (2016) (*Lifeline Modernization Order*).

⁷ *Id.*

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decisions, the budget for 2018 and beyond is not yet finalized. However, a very high level estimate of potential costs is available in the National Verifier Plan, estimating total build costs over three years to be approximately \$35 million and ongoing operational costs of \$40 million per year. USAC believes this to be a conservative estimate, as it assumes that interfaces would be built to several federal databases as well as databases in all 56 states and territories, which may not be realistic or cost-effective, as described in our response below.

b. What impediments, if any, have you encountered with state and local jurisdictions in acquiring the information you believe is necessary to implement the National Verifier system?

USAC is pursuing computer matching agreements and related technical interfaces with both federal and state or territory agencies that administer Lifeline-qualifying programs. As an initial matter, it is not always cost-effective to develop a computer matching agreement and technical interface with each state agency. Given the nationwide verification available through potential federal interfaces, and the fact that lower subscribership in certain states could be more efficiently managed through manual verification, USAC is not expecting to pursue a connection to every state and territory. In addition, USAC has encountered resource prioritization or legal considerations while working with state or territory agencies. From a prioritization perspective, some agencies may not be able to provide access to their data due to resource constraints or due to technical constraints within their systems. From a legal perspective, states have different existing statutes defining what data they can share, and new legislation has been required in some cases to allow the National Verifier access to the data. Notwithstanding these challenges, USAC has signed computer matching agreements with four states and is actively working to complete agreements with several more.

c. To what extent will the existing National Lifeline Accountability Database (NLAD) be utilized in the development and implementation of the National Verifier system?

The functions of the NLAD, including identity and address verification, duplicate checking, and management of enrollment, de-enrollment, and transfer of a subscriber between Lifeline ETCs, continue to be critical to Lifeline program administration. The NLAD system, however, is not designed as a portal to intake new applications for Lifeline service, or to interface with other systems for automated eligibility verification, which are functions essential to the National Verifier framework. USAC's system design aims to retain the best features of the NLAD while building new eligibility checking functionality in the new National Verifier system. The two systems are designed to interface with one another to provide a comprehensive review of a potential subscriber to the Lifeline program. This integration balances increased costs to the program with the necessary development of eligibility verification systems to improve the integrity of the program. As it has done with the NLAD since its initial implementation, USAC will continue to review the NLAD and National Verifier systems on a continuous basis to make improvements to its efficiency and effectiveness.

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4. *Chairman Pai's July 11, 2017, letter to USAC regarding the Lifeline program establishes a number of new USAC review and audit requirements. GAO's report, however, states that in at least one instance, USAC's routine audit functions have been constrained by "limited audit resources." Is USAC adequately resourced and staffed to conduct the review and audits of ETC and subscriber data outlined in the July 11 letter?*

In GAO's report on the Lifeline program, the GAO made reference to "limited audit resources."⁸ In making this reference, USAC believes the GAO was referring specifically to USAC's IAD contributor revenue audits. Contributor revenue audits focus on entities that make contributions to the USF ("contributors") and assess whether these entities contributed the appropriate amount. Because Lifeline program disbursements are derived from USF contributions, the GAO included its findings concerning contributor revenue audits in its report. USAC clarifies that a separate IAD team is responsible for performing Lifeline audits.

Each year, USAC's IAD and the FCC's OMD and WCB meet to discuss the risk-based methodology used to select entities for audits as well as the appropriate count of Lifeline audits for the next fiscal year audit plan. This decision is driven by the level of other oversight activities related to the Lifeline program, including PQA assessments, Lifeline program management reviews, and biennial audits of Lifeline ETCs that receive \$5 million or more annually in Lifeline program support as required by the Commission's rules. After IAD, OMD, and WCB determine the appropriate level of Lifeline audits and activity for the next fiscal year audit plan, IAD determines the number of auditors necessary to perform these audits. To the extent that IAD does not have the resources to internally perform these audits, IAD contracts with an external audit firm to conduct these audits on IAD's behalf. USAC will ensure that it has sufficient resources to conduct all audits, utilizing a mix of internal and external auditors as necessary in consultation with the Commission.

While IAD performs the audits identified in the FCC Chairman's letter, the Lifeline Program team will resolve the subscribers noted by GAO as requiring de-enrollment from the program as well as the ongoing monthly or quarterly sampling of subscriber records going forward. USAC's Lifeline Program team will work closely with the Commission to prioritize these activities, ensuring that existing resources are used effectively to get the most impact from the reviews performed.

⁸ Government Accountability Office, *Additional Action Needed to Address Significant Risks in FCC's Lifeline Program*, at p. 28 (May 2017).

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Senators, I thank you for your leadership on these important issues. I look forward to continuing our work with members of Congress, the FCC, and other stakeholders to continue our collective efforts to improve the integrity of the Lifeline program and ensure that universal service supports the global digital economy.

A handwritten signature in black ink, appearing to read "Vickie Robinson", written in a cursive style.

Sincerely,

Vickie S. Robinson
Acting Chief Executive Officer and General Counsel
Universal Service Administrative Company



OFFICE OF
THE CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

August 21, 2017

The Honorable Gary Peters
United States Senate
724 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Peters:

Thank you for your letter requesting information related to the recent Government Accountability Office (GAO) report identifying waste, fraud, and abuse in the Lifeline program.

I share your views on the overall importance of the Lifeline program. It's vital that low-income Americans have access to communications services, including broadband Internet. My focus has been—and will continue to be so long as I have the privilege of serving as Chairman—doing everything within the Commission's power to close the digital divide. I also believe that it is critical to strengthen the Lifeline program's efficacy and integrity by respecting the states' role in the program, ensuring the program is fiscally responsible, and reducing waste, fraud, and abuse. Addressing these issues—especially those identified in the GAO report—would ensure the program is actually advancing the Commission's goal of ensuring low-income Americans have access to affordable communications service.

Below, please find the responses to the specific questions included in your letter.

1. How do FCC and USAC measure the effectiveness of the various compliance and enforcement mechanisms that have been developed to improve oversight of Lifeline providers and sales agents?

Response: To measure the effectiveness of existing compliance and enforcement mechanisms, on a monthly basis, USAC tracks program metrics, including the percentage of Lifeline subscribers enrolled through carrier manual review of eligibility or identity documentation,¹ the ratio of service provider name look-ups in the National Lifeline Accountability Database (NLAD) to actual NLAD enrollments, and the variance between the number of subscribers in NLAD and the number of subscribers for which service providers claim reimbursement on their FCC Forms 497.² USAC provides reports to FCC staff on these metrics on a quarterly basis. USAC, under the oversight of the FCC, then takes steps to address any waste, fraud, or abuse concerns indicated in the metrics and refer issues to the

¹ As the National Verifier is rolled out, eligibility reviews will shift from carriers to the National Verifier.

² Beginning with the January 2018 data period (for Lifeline support payments to be issued in February 2018), USAC, under the oversight of the FCC, will disburse Lifeline support to service providers based on the number of subscribers enrolled in NLAD instead of issuing disbursements based on the FCC Form 497.

FCC's Enforcement Bureau and Office of Inspector General, when appropriate. USAC and the FCC also maintain whistleblower hotlines, and USAC refers any allegations of waste, fraud and abuse in the Lifeline program to the Enforcement Bureau and Office of Inspector General.

The FCC and USAC also use the results of USAC's Payment Quality Assurance (PQA) reviews and Beneficiary and Contributor Audit Program (BCAP) audits to measure the effectiveness of existing compliance and enforcement measures. USAC tracks common audit findings for Lifeline service provider audits, annually analyzes the root cause of each audit finding, and takes steps or makes recommendations to address the root causes. USAC provides FCC staff with a copy of the root cause analysis.

At the Commission's direction, USAC is currently implementing mechanisms by which to monitor and track the activity of individual sales agents to more quickly detect and address potential fraud or abuse.

a. What training and guidance on the Lifeline program is offered to or required for ETCs and sales agents?

Response: USAC, overseen by FCC staff, provides guidance and training materials for service providers and their agents, including summaries of the Lifeline program rules and common audit findings on USAC's website, monthly webinars on Lifeline program rules, a quarterly Lifeline newsletter, and email news briefs.³ Service providers and their agents can subscribe to a Rich Site Summary (RSS) feed to receive the latest news from USAC concerning the Lifeline program, including information on new FCC orders or guidance, program deadlines, and upcoming webinars.⁴ USAC also conducts regular service provider outreach to identify areas where additional guidance or training is needed. In addition, service providers and their agents can directly contact USAC and FCC staff with questions about specific Lifeline program rules or requirements.

The FCC's audit plan for Lifeline service providers that must obtain third party biennial audits requires an examination of the service providers' training for employees and agents concerning the Lifeline eligibility rules.⁵ In addition, when the FCC enters into consent decrees with Lifeline service providers to resolve violations of the Lifeline program rules,

³ See, e.g., Program Requirements, <http://www.usac.org/li/program-requirements/default.aspx> (last visited July 31, 2017); Rules and Orders, <https://usac.org/li/tools/rules-orders/2015-lifeline-order.aspx> (last visited July 31, 2017); Common Audit Findings: Lifeline Program, <http://usac.org/about/about-program-integrity/findings/common-audit-li.aspx> (last visited July 31, 2017); Lifeline Program Update Webinars, <http://www.usac.org/li/about/outreach-training/lifeline-program-update-webinars.aspx> (last visited July 31, 2017); Newsletter, <http://www.usac.org/li/about/outreach/newsletters/default.aspx> (last visited July 31, 2017).

⁴ See Subscription Center, <https://usac.org/about/tools/publications/subscription-center.aspx> (last visited July 31, 2017).

⁵ See *Wireline Competition Bureau Announces Release of Final Lifeline Biennial Audit Plan*, Public Notice, 29 FCC Rcd 3568, 3602, Attachment 3, Biennial Audit Plan (WCB 2014). See also 47 CFR § 54.420(a) (requiring companies receiving \$5 million or more in Lifeline reimbursements annually in the aggregate, on a holding company basis, to obtain third party biennial audits).

the consent decrees typically require service providers to develop and distribute Lifeline compliance manuals and establish and implement Lifeline compliance training for employees and third-party employees covered under the consent decree.⁶

b. Has FCC instituted criteria and timelines for evaluating individual ETC compliance plans?

Response: The Wireline Competition Bureau conducts reviews of non-facilities-based providers' proposed compliance plans to participate in the Lifeline program as a way of seeking to prevent improper payments from non-facilities based providers.. These reviews focus on a number of factors, including the service provider's proposed Lifeline offerings, internal procedures, service history, past compliance with Commission rules, and financial and technical ability to provide Lifeline service in compliance with Lifeline program rules.⁸ The FCC has not established a specific timeframe for completing reviews of Lifeline compliance plans.⁹

c. What is the extent of FCC and USAC's oversight of third-party entities contracted by ETCs to determine program eligibility?

Response: The Commission has made clear that Lifeline service providers are liable for any conduct by their employees, agents, contractors, or representatives (acting within the scope of their employment) that violates the Lifeline program rules.¹⁰ In addition, the Enforcement Bureau has taken action against Lifeline service providers for rule violations committed by sales agents.¹¹ As noted above, at the FCC's direction, USAC is currently implementing mechanisms by which to directly monitor and track the activity of individual sales agents to more quickly detect and address potential fraud or abuse.

⁶ See, e.g., *Blue Jay Wireless, LLC*, Consent Decree, 31 FCC Rcd 7605, 7610-11, para. 20 (EB 2016); *YourTel America, Inc.*, Consent Decree, 28 FCC Rcd 1539, 1545-46, para. 14 (EB 2013); *TerraCom, Inc.*, Consent Decree, 28 FCC Rcd 1529, 1533-34, para. 14 (EB 2013).

⁸ See *2012 Lifeline Reform Order*, 27 FCC Rcd at 6816-6817, paras. 379-81 (2012); *Wireline Competition Bureau Provides Guidance for the Submission of Compliance Plans Pursuant to the Lifeline Reform Order*, Public Notice, 27 FCC Rcd at 2188 (WCB 2012).

⁹ The Commission requires non-facilities-based service providers to submit compliance plans for the Wireline Competition Bureau's review and approval before they can receive Lifeline support. See *Lifeline and Link Up Reform and Modernization et al.*, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656, 6813-6814, 6816-6817, paras 386-369, 379-381 (2012) (*2012 Lifeline Reform Order*); *Wireline Competition Bureau Provides Guidance for the Submission of Compliance Plans Pursuant to the Lifeline Reform Order*, Public Notice, 27 FCC Rcd 2186, 2187 (WCB 2012).

¹⁰ See, e.g., *2012 Lifeline Reform Order*, 27 FCC Rcd at 6709, para. 110 ("ETCs may permit agents or representatives to review documentation of consumer program eligibility for Lifeline. However, the ETC remains liable for ensuring the agent or representative's compliance with the Lifeline program rules."); *Lifeline Providers are Liable if Their Agents or Representatives Violate the FCC's Lifeline Program Rules*, Public Notice, 28 FCC Rcd 9022, 9022, para. 1 (EB 2013) ("The FCC's Enforcement Bureau reminds Eligible Telecommunications Carriers (ETCs) receiving federal universal service support from the Lifeline program that they are liable for any conduct by their agents, contractors, or representatives (acting within the scope of their employment) that violates the FCC's Lifeline rules.").

¹¹ See generally *Total Call NAL* 31 FCC Rcd 4191.

d. How many times has FCC determined that an ETC is no longer qualified to provide Lifeline benefits, and what is the process for making this determination?

Response: The Commission has terminated or denied the participation of two service providers that the FCC determined to be unqualified to participate in the Lifeline program. In December 2016, following an Enforcement Bureau investigation of Total Call Mobile, Inc. (Total Call) for violation of Lifeline program rules, Total Call agreed via a consent decree to cease participating in the Lifeline program, relinquish all of its ETC designations, and withdraw its pending ETC designation applications.¹² In October 2015, the Commission prohibited Icon Telecom, Inc. (Icon) from participating in the Lifeline program for a three-year period, after Icon was convicted of making a false statement in violation of federal law in connection with fraudulent claims involving the Lifeline program.¹³

Enforcement Process

The FCC's Enforcement Bureau may open an investigation upon receiving timely information about actionable Lifeline rule violations and gathers additional information through a Letter of Inquiry (LOI).¹⁴ If the Enforcement Bureau determines that violations of applicable statutes and FCC rules have occurred, the Enforcement Bureau may take enforcement actions that include issuing a Notice of Apparent Liability for Forfeiture (NAL), which identifies the apparent violations and proposes penalties, including monetary penalties,¹⁵ or resolving the investigation through a settlement agreement in a consent decree. If an NAL is issued, the service provider has an opportunity to respond to the allegations in the NAL.¹⁶ If the service provider does not pay the penalty or demonstrate that a forfeiture penalty should not be imposed, the Enforcement Bureau issues a forfeiture order.¹⁷ If the violations are instead resolved through a consent decree the service provider may be required to return improperly claimed reimbursements to the Universal Service Fund, make an appropriate financial contribution to the U.S. Treasury, and adhere to a compliance plan to prevent the recurrence of the rule violations.¹⁸

Suspension and Debarment Process

¹² See *Total Call Mobile, Inc.*, Consent Decree, 31 FCC Rcd 13204, 13214, para. 27 (EB 2016). The Consent Decree resolved the Notice of Apparent Liability concerning Total Call's violation of Lifeline program rules by enrolling duplicate and ineligible subscribers. See *Total Call NAL*, 31 FCC Rcd at 4211-13, paras. 74-83.

¹³ See Letter from Jeffrey Gee, Chief, Investigations and Hearings Division, Enforcement Bureau, to Wes Yui Chew, President, Icon Telecom, Inc., 30 FCC Rcd 10939 (EB 2015).

¹⁴ Enforcement Primer, <https://www.fcc.gov/general/enforcement-primer> (last visited July 31, 2017).

¹⁵ See *id.* See also 47 U.S.C. § 503(b)(1)(B); 47 CFR § 1.80(a)(1), (f).

¹⁶ See 47 U.S.C. § 503(b)(4); 47 CFR § 1.80(f)(3); Enforcement Primer, <https://www.fcc.gov/general/enforcement-primer> (last visited July 31, 2017).

¹⁷ See 47 CFR § 1.80(f)(4); Enforcement Primer, <https://www.fcc.gov/general/enforcement-primer> (last visited July 31, 2017).

¹⁸ See Enforcement Primer, <https://www.fcc.gov/general/enforcement-primer> (last visited July 31, 2017).

The Commission may suspend and debar persons²⁰ from participating in the Lifeline upon a criminal conviction of, or civil judgment for fraud against a USF program, including the Lifeline program.²¹ When cause exists for suspension and debarment, the FCC suspends that person and begins a proceeding to debar the person from future participation in the USF program, including providing thirty (30) days in which to respond to the suspension and proposed debarment.²² Within ninety (90) days of the response date, the Commission may issue a notice of debarment to the service provider.²³ The debarment period is generally three years, but the Commission can set a longer period of debarment if necessary to protect the public interest.²⁴

Compliance Plan Review Process

To promote program integrity, the Wireline Competition Bureau conducts a thorough review of compliance plans submitted by non-facilities-based ETCs. If the ETC fails to provide the required information,²⁵ the Wireline Competition Bureau notifies the ETC and the ETC has an opportunity to submit a revised compliance plan.²⁶ The Wireline Competition Bureau may issue an order denying the compliance plan if the ETC fails to respond to an inquiry to the Wireline Competition Bureau's satisfaction or otherwise fails to demonstrate that it has met the requirements for compliance plan approval established in the *2012 Lifeline Order*.²⁷ In addition to the information required in the compliance plan, information from the FCC's Enforcement Bureau, Office of Inspector General, or state commissions concerning the service provider may also inform the Wireline Competition Bureau's decision on a compliance plan.²⁸ In the event the Wireline Competition Bureau denies a compliance plan, the ETC cannot receive Lifeline support as a non-facilities-based provider.²⁹

2. What steps are being taken to ensure that ETCs and subcontractors are aware of the federal and state databases and other information available to them in order to determine program eligibility?

Response: USAC, under the oversight of the FCC's Wireline Competition Bureau and Office of Managing Director, is developing a comprehensive list of available state and federal eligibility databases that service providers must check while the National Verifier is still being

²⁰ The FCC's debarment rules define a "person" as "[a]ny individual, group of individuals, corporation, partnership, association, unit of government or legal entity, however organized." 47 CFR § 54.8(a)(6).

²¹ See 47 CFR § 54.8(c).

²² See 47 CFR § 54.8(e)(1), (3).

²³ See 47 CFR § 54.8(e)(5).

²⁴ See 47 CFR § 54.8(g).

²⁵ See *2012 Lifeline Reform Order*, 27 FCC Rcd at 6816-17, paras. 379-81; *Wireline Competition Bureau Provides Guidance for the Submission of Compliance Plans Pursuant to the Lifeline Reform Order*, Public Notice, 27 FCC Rcd at 2188 (WCB 2012).

²⁶ See *2012 Lifeline Reform Order*, 27 FCC Rcd at 6816, para. 380, n.1000.

²⁷ See *id.*; *Conexions Compliance Plan Order*, 29 FCC Rcd at 14430-32, paras. 8-11.

²⁸ See *2012 Lifeline Reform Order*, 27 FCC Rcd at 6818, para. 388.

²⁹ See *id.* 27 FCC Rcd at 6816, para. 380; *Conexions Compliance Plan Order*, 29 FCC Rcd at 14432, para. 12.

implemented. This list will be posted on USAC's website, and USAC will update this list every six months and regularly email the list to service providers.

As the National Verifier is rolled out, starting with five states in December 2017, eligibility determinations will shift from service providers to the National Verifier.

3. What is your projected timeline for testing and implementing the National Verifier System?

Response: The technical build of the National Verifier is already underway, and the initial system launch in at least five states will occur in December 2017.³⁰ Testing will occur throughout the build process. From December 2017 through February 2018, service providers in the initial states will be able to test the system and transition to the National Verifier.³¹ During this period, USAC will be verifying the eligibility of all existing subscribers in these states as they are migrated to the National Verifier. By March 2018, all enrollments and recertifications in the initial states will be conducted by the National Verifier.³² The National Verifier will be expanded to at least 25 states by the end of 2018, and in all remaining states and territories by December 31, 2019.³³

(a) What are your projected costs?

Response: Through March 2018 (the initial launch), the projected costs associated with implementing National Verifier are \$21 million. This total includes the costs associated with the development of the core system (consumer and service provider application portals), federal and state interface implementation for the initial launch, user support (including training, standup, and operation of a call center), compensation and benefits of all full-time USAC staff dedicated to implementing and managing the National Verifier, and three months of operations of the National Verifier during the soft launch period.

(b) What impediments, if any, have you encountered with state and local jurisdictions in acquiring the information you believe is necessary to implement the National Verifier system?

Response: USAC, overseen by Commission staff, has been coordinating extensively with states to obtain the information necessary to implement the National Verifier. The

³⁰ See Lifeline Program Update, National Verifier Updates at 11 (May 27, 2017), http://www.lifelinesupport.org/_res/documents/li/training/2017-May-Lifeline-Program-Update-Webinar.pdf; Lifeline National Verifier Plan, at 23 (as updated July 31, 2017), http://usac.org/_res/documents/li/pdf/nv/Draft-National-Verifier-Plan.pdf.

³¹ See Lifeline National Verifier Plan, at 104 (as updated July 31, 2017), http://usac.org/_res/documents/li/pdf/nv/Draft-National-Verifier-Plan.pdf; See Lifeline Program Update, National Verifier Updates at 11 (May 27, 2017), http://www.lifelinesupport.org/_res/documents/li/training/2017-May-Lifeline-Program-Update-Webinar.pdf.

³² See Lifeline Program Update, National Verifier Updates at 12 (May 27, 2017), http://www.lifelinesupport.org/_res/documents/li/training/2017-May-Lifeline-Program-Update-Webinar.pdf.

³³ See Lifeline National Verifier Plan, at 23 (as updated July 31, 2017), http://usac.org/_res/documents/li/pdf/nv/Draft-National-Verifier-Plan.pdf.

process of reaching a computer matching agreement varies depending on the state. Some states have required legislative changes prior to being able to share data with USAC, while others have complex procurement processes that USAC must navigate. Some state agencies are unable to provide access to their data due to technical challenges, such as a lack of resources necessary to make system modifications.

We note that while the goal is to automate eligibility verifications as much as possible, it may not be cost-effective to build a connection to all state databases, especially if the National Verifier has automated connections to federal databases.³⁴

(c) To what extent will the existing National Lifeline Accountability Database (NLAD) be utilized in the development and implementation of the National Verifier system?

The National Lifeline Accountability Database (NLAD) will be fully integrated into the National Verifier. NLAD will continue to perform identity, address, and duplicate checks for Lifeline subscribers.³⁵ NLAD will also continue to serve as the official record of enrolled Lifeline subscribers, and service providers will still be required to update subscriber information in NLAD (e.g., address changes, service provider changes, de-enrollments).³⁶ The NLAD will produce monthly reports of each service provider's Lifeline subscribers and service providers will certify and request reimbursement based on that list instead of the program's current practice of reimbursing service providers based on their FCC Form 497 submissions.³⁷

4. Chairman Pai's July 11, 2017, letter to USAC regarding the Lifeline program establishes a number of new USAC review and audit requirements.³⁸ GAO's report, however, states that in at least one instance, USAC's routine audit functions have been constrained by "limited audit resources." ³⁹ Is USAC adequately resourced and staffed to conduct the reviews and audits of ETC and subscriber data outlined in the July 11 letter?

Response: USAC is adequately resourced and staffed to conduct the reviews and audits of ETC and subscriber data outlined in my July 11, 2017 letter to USAC. In addition, FCC staff continues to coordinate with USAC to prioritize and strengthen efficiencies in conducting audits and reviews.

I further note that USAC's routine audit functions for the Lifeline program are not constrained by "limited resources." In fiscal years 2014 through 2016, USAC and external

³⁴ See *id.* at 31.

³⁵ See *id.* at 12, 20.

³⁶ See *id.* at 19, 20.

³⁷ See *id.* at 19, 20, 49-50.

³⁸ Letter from Ajit V. Pai, Chairman, Federal Communications Commission, to Vickie Robinson, Acting CEO and General Counsel, Universal Service Administrative Company (July 11, 2017).

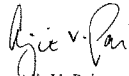
³⁹ Government Accountability Office, *supra* at p. 28.

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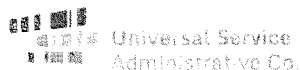
auditors overseen by USAC completed 94 Beneficiary and Contributor Audit Program (BCAP) audits of Lifeline service providers, and in fiscal years 2015 and 2016 USAC completed 600 Payment Quality Assurance (PQA) reviews of Lifeline service providers.

I appreciate your interest in this matter. Please let me know if I can be of any further assistance.

Sincerely,


Ajit V. Pai

T.S. Senator, good to hear from you. Please feel free to get in touch about any FCC-related matters of interest to you and/or Michiganans — or to talk Hawleys in the U.P.



September 12, 2017

Senator Gary C. Peters
United States Senate
Hart Senate Office Building, Suite 724
Washington, DC 20510

Senator Debbie Stabenow
United States Senate
Hart Senate Office Building, Suite 731
Washington, DC 20510

Dear Senator Peters and Senator Stabenow:

Thank you for your follow-up questions related to our August 18, 2017 letter concerning the Universal Service Fund's (USF) Lifeline program and the related report issued by the Government Accountability Office (GAO). The Universal Service Administrative Company (USAC) is pleased to provide additional information related to your July 18, 2017 inquiry about the USF and Lifeline program. Below are USAC's responses to the follow-up questions posed by your staff during a conference call on September 8, 2017. Our response details the annual ongoing operational costs for the National Lifeline Eligibility Verifier (National Verifier) and clarifies the cost effectiveness analysis and role of state databases for the National Verifier. We look forward to continued discussions with you on these issues.

Supplemental Response to 3(a) and (b):

- a. Please provide a detailed breakdown of the projected operational costs of \$40 million per year.*

As detailed in our August 18, 2017 response, at a very high level estimate of potential costs, USAC has projected the National Verifier will have total build costs over three years of approximately \$35 million, and ongoing operational costs of \$40 million per year. USAC continues to believe that this is a conservative estimate, as it assumes that interfaces would be built to several federal interfaces as well as all 56 states and territories, which may not be realistic or cost effective, as described in our response below.

The estimated annual operational costs are detailed as follows:

Cost Category	Cost Estimate (in millions)
USAC Full-Time Employees	\$3.7
Ongoing Technical Operation and Maintenance of the System	\$1.1
Business Process Outsource (BPO) Vendor	\$35.0
Total	\$39.8

The BPO vendor will provide a full service call center for the National Verifier stakeholders and participants, as well as process eligibility verification for initial enrollment and annual re-

Senator Peters and Senator Stabenow
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certifications where automated verification is not possible, as described below. The cost of these services are predominantly based on volumes, which USAC has conservatively projected for the period in which the National Verifier framework is in place nationwide.

b. How will USAC determine whether to launch an automated connection or use manual verification for the National Verifier?

USAC has a team in place that is continuing to actively develop relationships with the state public utility commissions and other agencies that manage Lifeline-qualifying programs to determine what type of databases are available in the 56 states and territories. The availability of consolidated, automated databases varies across the states and territories. For example, some states already have developed and implemented interface portals through which USAC can connect the National Verifier with minimal information technology development. In other states, the databases are not currently connected to any outside agencies and thus additional development and cost would be necessary to develop a connection. In addition, some states have combined databases for programs such as the Supplemental Nutrition Assistance Program (SNAP), Medicaid, and Supplemental Security Income (SSI), while other states have separate databases, and thus would require not one but multiple connections to be developed with the state. As such, USAC looks at a variety of factors in determining whether to launch an automated connection in a state, including (1) accessibility of available databases; (2) the number of subscribers in the state; and (3) cost of one-time build out and deployment as well as ongoing cost to maintain the connection. Then, USAC compares all of these factors to the alternative cost of manual review for the state to determine if an automated connection is cost effective. Where a state database is not available, USAC will rely upon federal databases and manual review to conduct eligibility verification in a state.

To reiterate, states can and will be rolled into the National Verifier even where no automated connection with a state eligibility database is established. USAC is working to develop connections to federal databases that will provide eligibility information on a nationwide basis and will be used in addition to state sources. Further, USAC will use manual processes to review documentation submitted by consumers to verify eligibility where a state or federal data source is unable to validate eligibility. We also note that even in states where the federal or state database connections exists, manual review will still be necessary for two reasons. First, we may not be able to connect to a database that automatically addresses all of the potential qualifying programs or income level and thus will need to validate eligibility through a manual review process conducted by USAC. Second, each of the computer matching agreements established for these database connections and developed by USAC and the Federal Communications Commission for the National Verifier must comply with the federal Privacy Act of 1974 (Privacy Act). When eligibility is denied based on a failure to match using a database, the Privacy Act requires USAC to provide an opportunity for appeal or review. As such, even where USAC uses automated matching with a state or federal database, we will provide a mechanism through which a consumer may demonstrate eligibility using manual review of documentation when information is not matched in a database.

Senator Peters and Senator Stabenow
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USAC is committed to developing automated database connections where they are cost effective; however, states can and will be included even where no automated databases are available or are not cost effective. USAC looks forward to partnering with more states on the National Verifier, but the success of the National Verifier is not dependent on access to these state eligibility databases. Once the National Verifier is fully implemented, USAC will be the third party neutral administrator determining subscriber eligibility and such processes will no longer reside with the eligible telecommunications carriers.

Senators, I thank you again for your leadership on these important issues and I welcome any additional questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Vickie S. Robinson", with a long horizontal flourish extending to the right.

Vickie S. Robinson
Acting Chief Executive Officer and General Counsel
Universal Service Administrative Company

United States Senate

U.S. SENATE
WASHINGTON

September 13, 2017

The Honorable Ron Johnson
Chairman
U.S. Senate Committee on Homeland
Security & Governmental Affairs
340 Dirksen Senate Office Building
Washington, DC, 20510


The Honorable Claire McCaskill
Ranking Member
U.S. Senate Committee on Homeland
Security & Governmental Affairs
340 Dirksen Senate Office Building
Washington, DC, 20510

Dear Chairman Johnson and Ranking Member McCaskill:

Chairman Richard Burr has scheduled a special meeting of the Senate Select Committee on Intelligence tomorrow, Thursday, September 14, 2017, pertaining to the committee's ongoing investigation into Russia's interference in the 2016 election. This classified meeting is scheduled outside of Washington D.C. at the same time and date as the Homeland Security and Governmental Affairs Committee's (HSGAC) hearing entitled "FCC's Lifeline Program: A Case Study of Government Waste and Mismanagement." As a result, I will not be able to attend tomorrow's HSGAC hearing.

Internet and telephone service are essential to participation in the modern economy, and federal efforts to ensure low-income Americans have access are of great importance. I look forward to continuing to work with you and the rest of our colleagues on the HSGAC committee on this important issue.

Sincerely,



Kamala D. Harris
United States Senator

Smith Bagley, Inc

September 29, 2017

The Honorable Ron Johnson, Chairman
The Honorable Claire McCaskill, Ranking Member
The United States Senate Committee on
Homeland Security and Governmental Affairs
340 Dirksen Senate Office Building
Washington DC 20510

Via Email to: Bonni_dinerstein@hsgac.senate.gov

Re: Committee Hearing, September 14, 2017
FCC's Lifeline Program: A Case Study of
Government Waste and Mismanagement
Submission for the Record

Chairman Johnson and Ranking Member McCaskill:

On behalf of Smith Bagley, Inc., d/b/a Cellular One, I write to provide the Committee with information about Cellular One's participation in the Lifeline program, and suggest possible reforms as the Committee decides whether to legislate or to continue to monitor the FCC's progress on these important matters.¹

We note with approval the FCC's substantial undertaking, under multiple administrations, to reform and improve the Lifeline program. Our purpose in writing today is to inform the Committee about how facilities-based carriers are increasing telephone penetration on Tribal lands and to advocate for reforms that do not inadvertently harm at-risk Tribal members living in far different circumstances from those experienced by other Americans living in urban, suburban, and even rural locations. Reforms must be calibrated so as to prevent people living on remote Tribal lands, many of whom lack basic infrastructure, from losing critical connectivity that has been achieved through the federal Lifeline program.

Serving Tribal Lands Can Be Nothing Like Serving Rural America.

When it comes to infrastructure, some Tribal lands across the country are not much different than the rest of America. Others face extraordinary challenges with infrastructure development, poverty, unemployment, lack of electricity or running water, and long distances between homes and basic services.

¹ At the above-referenced hearing, Chairman Johnson announced that the record would be held open through September 29, 2017 for the submission of additional information.

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We serve the Navajo Nation, the Hopi Tribe, the Pueblo of Zuni, the White Mountain Apache Tribe, and the Ramah Navajo. While each face similar challenges, I will focus on the Navajo Nation because it is the largest Native nation within the lower 48 states and it faces all of the challenges set forth above.

At over 27,000 square miles, the Navajo Nation is roughly the size of West Virginia, with a 2010 Census population of approximately 173,000.² While Cellular One and competing carriers provide service in many Navajo towns, this letter focuses on people living in remote high desert lands, with a population density oftentimes less than five per square mile.³ The combination of low population density and poor demographics have made it impossible for Cellular One (or other carriers) to invest in new cell sites beyond the towns and major roads without support from the federal universal service mechanism.

A report prepared by the Arizona Rural Policy Institute, using 2010 Census data and 2010 American Community Survey estimates, indicates that:

Poverty rates on the Navajo Nation Reservation (38%) are more than twice as high as poverty rates in the State of Arizona (15%). Almost half (44%) of all children under 18 years of age are considered to be living in poverty, while one-third (34%) of tribal members between 18 and 64 also live in poverty. Almost one-third (29%) of persons living in families on the Navajo Nation live in poverty, twice the rate of families living in poverty in the State of Arizona (13%), for example. More than one-third of all persons over age 65 (39%) also live in poverty, five times higher than the State of Arizona (8%) for this age group.⁴

Most important for your consideration of Lifeline, according to the 2000 Census, while over 90% of the rest of America enjoyed basic telephone service at home, only 38% of households on the Navajo Nation had access to a phone of any kind.⁵ Many areas of the Navajo

² U.S. Census 2010.

³ For example, according to the 2010 Census, Navajo County, AZ, including non-Tribal lands, has only 10.8 inhabitants per square mile, while Apache County, AZ, including non-Tribal lands, has only 6.4. See <http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk>. On Tribal lands within these counties, many areas are below 5 inhabitants per square mile.

⁴ Arizona Rural Policy Institute, *Demographic Analysis of the Navajo Nation Using 2010 Census and 2010 American Community Survey Estimates* (2013), at 34. Unpublished. The relevant pages are enclosed as Exhibit A.

⁵ See, *Telephone Penetration by Income by State (Data Through 1999)*, Industry Analysis Div., Common Carrier Bur., FCC (March, 2000) at 4, accessed at http://transition.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-

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Nation lacked a basic landline infrastructure, poles and wires commonly seen throughout the rest of the country. As a result, thousands of Tribal residents lacked the ability to participate in the modern world, including the ability to summon help via 911, to communicate with relatives, doctors, and schools, or to engage in numerous other types of interactions that those of us with access to telephone service take for granted.

**The FCC's Tribal Lifeline Program Has Significantly Increased
 Telephone Penetration on Tribal Lands.**

The FCC's Lifeline program was designed to increase telephone penetration and connect those least able to afford telecommunications services, or the cost of installing new service. In 2000, the FCC added \$25.00 per month of federal Lifeline support for each qualifying citizen residing on Tribal lands. The express purpose of the increase was to incent investment in facilities on unserved and underserved Tribal lands such as the Navajo Nation:

By providing carriers with a predictable and secure revenue source, the enhanced Lifeline support ... is designed to create incentives for eligible telecommunications carriers to deploy telecommunications facilities in areas that previously may have been regarded as high risk and unprofitable. We note that, *unlike in urban areas where there may be a greater concentration of both residential and business customers, carriers may need additional incentives to serve tribal lands that, due to their extreme geographic remoteness, are sparsely populated and have few businesses.* In addition, given that the financial resources available to many tribal communities may be insufficient to support the development of telecommunications infrastructure, we anticipate that the enhanced Lifeline and expanded Link Up support will encourage such development by carriers. In particular, *the additional support may enhance the ability of eligible telecommunications carriers to attract financing to support facilities construction in unserved tribal areas.* Similarly, *it may encourage the deployment of such infrastructure by helping carriers to achieve economies of scale* by aggregating demand for, and use of, a common telecommunications infrastructure by qualifying low-income individuals living on tribal lands.⁶

[State_Link/IA/pntr99.pdf](#); U.S. Gen. Accountability Office, *Challenges to Assessing and Improving Telecommunications for Native Americans on Tribal Lands*, at 14 & Fig. 3 (2006), accessed at <http://www.gao.gov/products/GAO-06-189>.

⁶ See, *Federal-State Joint Board on Universal Service; Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas*, Twelfth Report and Order, Memorandum Opinion and

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In hindsight, the FCC was correct in predicting that increased Lifeline support for Tribal lands would cause carriers (especially wireless carriers) to construct facilities in remote areas, to capture customer revenue, plus Lifeline support. Shortly after the Tribal Lifeline Order was adopted, Cellular One began constructing new cell towers on Navajo lands, focusing on areas that had been largely ignored due to sparse population and difficult demographics, and in part due to carriers' unwillingness to navigate a sovereign nation's unique regulatory requirements. Between 2000 and the present day, Cellular One has initiated service at 144 new tower locations on Tribal lands, it has upgraded its network from 2G to 3G, and it is now in the process of upgrading to 4G LTE service. Building, upgrading, and maintaining this network has cost several hundred million dollars.

Two facts are important to this Committee. First, between 2000 and 2015, the percentage of households with access to a telephone on Navajo land increased from 38% to over 75%.⁷ Second, I can attest that the substantial construction and infrastructure development undertaken by Cellular One could not possibly have happened without the FCC's Tribal Lifeline program. Without question, the Lifeline program has significantly improved the lives of hundreds of thousands of Tribal citizens nationwide, many of whom Cellular One serves, by providing an incentive for Cellular One to invest in new and upgraded facilities. This is a huge success for Lifeline.

It is also important to note that the incentive set up by the FCC was competitively neutral. That is, any carrier willing to take the risk to first build facilities, and then to succeed in getting a customer, would receive the support. Today, any carrier is free to enter the market and compete with Cellular One, and indeed both Sacred Wind Communications and CommNet Wireless have done so. The fact that support is competitively neutral and market-based requires each entrant to invest, earn customers, and keep them, lest the Lifeline support be ported out to a competitor. If you get the customer, you get the support, and if you lose the customer, you lose the support, so there is no concern about "duplication of facilities."

Order, and Further Notice of Proposed Rulemaking, 15 FCC Rcd 12,208, 12,235-36 (2000) ("Tribal Lifeline Order") (emphasis added, footnotes omitted).

⁷ See, e.g., Letter from Russell Begaye, President of the Navajo Nation, to Ajit Pai, Chairman, FCC (filed Feb. 3, 2017), showing a chart of household telephone penetration on the Navajo Nation between 2000 and 2015. A copy is enclosed as Exhibit B.

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Lifeline is Critical to Maintaining and Improving Service on Tribal Lands.

On the Tribal lands where Cellular One serves, there remains much work to be done. For example, 88% of Cellular One's towers on Navajo lands move wireless traffic between towers and switches via microwave facilities. That is a very high-quality solution for voice and basic Internet access, however, for Cellular One to deliver high-quality, fast 4G LTE broadband, towers must be directly connected to fiber.

Yet, in extreme cases, such as Cellular One's tower in Pueblo Pintado, New Mexico, the closest fiber is approximately 31 miles away and industry experts estimate that the cost to extend fiber to this one site is approximately \$25 *per foot*, or \$4.1 million (31 x 5,280 x \$25). With the potential coverage area being sparsely populated and having little business or agricultural activity, it is impossible to make a business case to extend fiber to this tower, and many like it, without universal service support. Without fiber to these remote towers, Navajo citizens are denied access to high speed broadband.

Fiber to towers can accelerate broadband access which is not present in most of the Navajo Nation. Enclosed as Exhibit C are pages from the FCC's National Broadband Map, breaking out broadband data for all Native Nations, and for the Navajo Nation. As of June 30, 2014, the most recently available National Broadband Mapping data, only 26.1% of the Navajo population has access to the Internet at speeds greater than 3 Mbps. Only 18.6% has access at speeds greater than 10 Mbps.

In sum, there's much to be done. Were the FCC or Congress to cut the Tribal Lifeline program, service to over 100,000 individuals in Cellular One's service area (including those not participating in Lifeline) would be jeopardized. There is not enough economic activity and customer revenues to make up for any significant loss of support. Accordingly, we urge measured and carefully calibrated changes to Lifeline to avoid harming at-risk Tribal populations throughout the country, and to preserve and extend what has been a foundational victory for the FCC over the past seventeen years, through the leadership of both Democratic and Republican administrations.

Recommendations for Improving Lifeline.

In Cellular One's experience, Lifeline compliance problems appear to be most acute among third-party agents with a financial incentive to sign up customers, namely a one-time commission. Many, if not most, third-party agents appear poorly trained and ill-equipped to follow fairly detailed FCC rules for signing up customers, verifying eligibility, and assuring

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ongoing compliance. Cellular One cannot speak for the entire industry, but our company does not use a third-party agent system with commission fees. We rely on employees, who can be trained and held accountable.

As you know, the National Lifeline Accountability Database (NLAD) was set up to ensure that a household only receives one Lifeline subscription. At the recent hearing, both of you correctly pointed out that sales agents have the ability to “override” the third-party identity verification (TPIV) mechanism in NLAD, sometimes resulting in ineligible citizens accessing Lifeline benefits. While the TPIV override function has a salutary purpose, to prevent eligible consumers from being denied benefits due to an inaccurate database, when an agent works on commission there is an incentive to misuse this override capability.

Another issue discussed at the hearing involves verifying customer addresses in NLAD through the US Postal Service Address Matching Service (AMS). When a customer address is rejected by the AMS, the customer must provide documents confirming that the address is deliverable, for example a driver’s license, utility bill, paycheck stub, or tax return. Carriers are able to enter the name or identification number of the agent who reviewed the subscriber information and specify what documentation was reviewed. Our understanding is that some carriers have used the address override process to qualify customers who might not otherwise be eligible for Lifeline benefits.

We urge the Committee to continue its oversight in these areas. The FCC and Universal Service Administrative Company (USAC) are tightening standards for TPIV and address overrides to minimize program waste. Increasing accountability for actions of third-party agents, or requiring Lifeline sales to be carried out directly by company employees, are two reforms that should be considered.

Reforms to the FCC’s “Tribal Flag” Must be Carefully Calibrated.

As discussed above, Cellular One serves some of the most remote Tribal lands in the nation, including Apache County, AZ, and McKinley and Cibola Counties in NM, three of the FCC’s “Critical Need Counties in Broadband and Health – Priority 2017.”⁸ On the Navajo Nation, the Postal Service has yet to establish a postal addressing system. To be clear, except for residences located in and around established Navajo towns, Navajo citizens do not receive Postal Service mail delivery at their homes.

⁸ See Critical Need Counties in Broadband and Health – Priority 2017 at https://www.fcc.gov/sites/default/files/priority_counties_in_broadband_and_health_2017.pdf.

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Cellular One serves approximately 7,500 Tribal households in remote areas beset by extreme poverty, having no modern household facilities, or means of transportation. Many of these families live in high desert areas of Arizona, New Mexico, and Utah in traditional Navajo hogans or trailers, located well off established roads. People pick up mail and parcels at a post office in the nearest town. In short, they are almost completely “off the grid.” According to 2015 Census data, approximately 20% lack plumbing facilities, while other sources indicate that fully 40% of Navajo homes lack running water.⁹

Because the Postal Service has never established a postal addressing system for most of the Navajo Nation, Tribal residents living in remote areas use a descriptive address. A descriptive address may be, for example, “Three hundred yards east of Navajo Service Route 8063, and three miles north of Highway 12.” Cellular One’s representatives know the area from experience, and can confirm on a map where a customer lives. Because multiple dwellings in the same settlement may use the same descriptive address, Cellular One works with customers to add details to the descriptive address so that each separate dwelling has a unique description.

In order to address this problem, several years ago Cellular One worked with the FCC to develop a “Tribal Flag” that would enable the company to use non-standard addresses in the NLAD system. To be clear, the Tribal Flag is a form of override, made necessary when a person lives at an address not recognized by the Postal Service. Use of the Tribal Flag in areas where the Postal Service has no addressing system has been integral to ensuring that some of the most difficult-to-serve households, those most at risk in the entire country, are able to receive a lifeline benefit.

Congress should monitor the FCC’s efforts to stop carriers from abusing the Tribal Flag process to qualify ineligible applicants for Tribal Lifeline benefits. At the same time, an overbroad regulatory response that eliminates the Tribal Flag will put some of the most remote and lowest-income Tribal citizens at risk of harm.

Cellular One asks this Committee, as part of its oversight responsibility, to ensure that the Tribal Flag process is protected for carriers serving the most at-risk Tribal citizens, living in areas that do not have a Postal Service addressing system in place.

⁹ A copy of the 2015 Census data is enclosed as Exhibit D. See also, The Navajo Water Project, which estimates that 40% of Navajo Americans live without running water. <https://www.navajowaterproject.org/> (accessed Sept. 28, 2017).

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Committee and FCC Oversight Should Focus on Lifeline Resellers.

Cellular One believes that facilities-based carriers, those with FCC licenses, telecommunications plant, and employees, have been and will continue to be responsible stewards of Lifeline funds. A facilities-based carrier has a lot at risk, and cannot close up shop in the face of enforcement activity lest it forfeit its FCC authorization to provide service and put at risk its entire business enterprise. In Cellular One's case, the company is heavily invested in the local community. Thirty-one percent of Cellular One's nearly 200 employees are Native Americans. We support our Tribal communities by paying Tribal taxes, donating to scholarships, school programs and natural disaster relief.

Wireless resellers, on the other hand, have no facilities, no switches, towers, wires, or FCC licenses. They buy minutes and data from major carriers at a very low price and resell them to consumers, along with a handset. Most do not directly employ sales personnel to sell service to the public, but instead use third-party agents, most of whom are not connected directly to the telecommunications industry, such as check cashing companies, pawn shops, and money transfer outlets.

While some resellers have put enormous efforts into FCC compliance, and have acted responsibly, there are several high-profile cases of resellers taking advantage of the program, as discussed in your recent hearing.

Cellular One urges the Committee to focus its investigative and legislative efforts on resellers, especially those with a history of misusing public funds.

Lifeline Resellers Should Not be Eligible for Tribal Lifeline.

As noted above, the FCC's Tribal Lifeline program, which in 2000 added \$25.00 of Lifeline support for Tribal residents, has been an enormous success. In Cellular One's case, the funds have been used to build over one hundred cell towers and to upgrade facilities on Tribal lands that had not previously been served by any telecommunications carrier.

Tribal Lifeline should only be made available to facilities-based carriers who are capable of constructing facilities to serve Tribal lands. That was the FCC's intent back in 2000, some five years before resellers were permitted to participate in the Lifeline program. Resellers have no facilities to invest in. As a result, the extra \$25.00 that a reseller could capture from Tribal Lifeline goes to the reseller, oftentimes located in another state, or another country, frustrating the FCC's intent that funds be used for investment on Tribal lands.

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Accordingly, Cellular One asks the Committee to communicate to the FCC that Tribal Lifeline benefits should only be available to facilities-based carriers who have the ability to use such funds to invest in building, maintaining, and upgrading telecommunications infrastructure on Tribal lands.

We trust that you will find this information to be useful. Should you have any questions, please call me directly.

Smith Bagley, Inc., d/b/a Cellular One

A handwritten signature in black ink, appearing to read "Justin E. Hinkle", is written over a horizontal line.

Justin E. Hinkle, President
jhinkle@cellularoneaz.com

cc: Committee Members
David LaFuria, Esq. (dlafuria@fcclaw.com)

**Demographic Analysis of the
Navajo Nation
Using 2010 Census and 2010 American Community Survey Estimates**



Completed for:
Planning and Development
P.O. Box 17779
Window Rock, Arizona 85269

Completed by:
Arizona Rural Policy Institute
Center for Business Outreach
W.A. Franke College of Business
Northern Arizona University

Navajo Nation Demographic Analysis

Introduction

This analysis of the Navajo Nation was undertaken by the Arizona Rural Policy Institute (ARPI) in the W.A. Franke College of Business at Northern Arizona University for the planning department of the Navajo Nation. The ARPI has produced the Demographic Profile for Navajo Nation with the latest information available from the 2010 Census and the 2010 American Community Survey (5-year estimates). This document is provided to Arizona tribes as a product of the EDA Technical Assistance Grant provided to the ARPI at Northern Arizona University.

Although the American Community Survey (ACS) produces population, demographic and housing unit estimates, it is the Census Bureau's Population Estimates Program that produces and disseminates the official estimates of the population for the nation, states, counties, cities and towns and estimates of housing units for states and counties. Therefore, this report incorporates two major data sources. First, the official 2010 Census, primarily from the SF1 data report to produce data on the population, age, race and ethnicity relative to Navajo Nation. The second data source is the American Community Survey, 5-year estimate data for the period 2006 to 2010 and is annotated in the document as ACS 2010 (5-year estimates). The 2010 ACS 5-year estimates are based on data collected between January 2006 and December 2010. The data were used to analyze household income, poverty rates, employment, language use and household characteristics for Navajo Nation. Only the 5-year estimates are used as the data was provided for small geographic areas, representing the average characteristics over the 5-year period.

The analysis of demographics for the Navajo Nation first examines the 2010 Census and then the American Community Survey where data is available. Demographic characteristics for the Navajo Nation are outlined in three state partitions for Arizona, New Mexico and Utah. Comparisons between the state partitions serve to provide further levels of comparison when examining demographic characteristics of the tribe.

Appendix A contains official Census 2010 data and Appendix B contains American Community Survey data (5-Year Estimates) and Appendix C contains the margin of error estimates to be used to calculate the estimates for the American Community Survey data.

Poverty

Poverty rates on the Navajo Nation Reservation (38%) are more than twice as high as poverty rates in the State of Arizona (15%). Almost half (44%) of all children under 18 years of age are considered to be living in poverty, while one-third (34%) of tribal members between 18 and 64 also live in poverty. Almost one-third (29%) of persons living in families on the Navajo Nation live in poverty, twice the rate of families living in poverty in the State of Arizona (13%), for example. More than one-third of all persons over age 65 (39%) also live in poverty, five times higher than the State of Arizona (8%) for this age group. Poverty rates are consistent for Navajo Nation tribal members residing in all three states. See Table 15 and Figure 16.

Table 15 Poverty Status over the Last 12 Months

	Arizona	%	New Mexico	%	Utah	%	Total Navajo Nation	
Persons for whom poverty status is determined	98,106		64,143		6,212		168,461	
Persons Below Poverty	37,063	38%	24,039	37%	2,442	39%	63,544	38%
Persons under 18 for whom poverty status is determined	33,700		20,752		2,226		56,678	
Persons under 18 in Poverty	14,589	43%	9,281	45%	924	42%	24,794	44%
Persons aged 18 to 64 for whom poverty status is determined	54,970		37,731		3,558		96,259	
Persons aged 18 to 64 in Poverty	18,888	34%	12,475	33%	1,304	37%	32,667	34%
Persons over 65 for whom poverty status is determined	9,436		5,660		428		15,524	
Persons over 65 in Poverty	3,586	38%	2,283	40%	214	50%	6,083	39%
Persons in Families for whom poverty status is determined	87,592		57,241		5,684		150,517	
Persons in Families in Poverty	30,639	35%	19,971	35%	2,181	38%	52,791	35%
Unrelated Persons in Poverty	6,424	7%	4,068	6%	261	4%	10,753	6%

Source: ACS 2010, 5 Year Estimates



THE NAVAJO NATION

RUSSELL BEGAYE PRESIDENT
JONATHAN NEZ VICE PRESIDENT

Exhibit B

February 3, 2017

Ajit Pai, Chairman
 Federal Communications Commission
 445 12th Street, SW
 Eighth Floor
 Washington, DC 20554

Re: Lifeline Documentation Request

Dear Chairman Pai,

I write to express my grave concerns about a recent decision by the Universal Service Administrative Company ("USAC") that would force over a thousand low-income Navajo Nation residents to lose essential phone service supported by the Lifeline program.

Smith Bagley, Inc. d/b/a Cellular One is one of a number of carriers that provide discounted cellphone service on Navajo Nation. Cellular One has provided service through the FCC's Lifeline program for over 16 years. The company has been focused on serving our communities, and has built wireless service to some of our most remote areas, where our citizens often lack access to basic services.

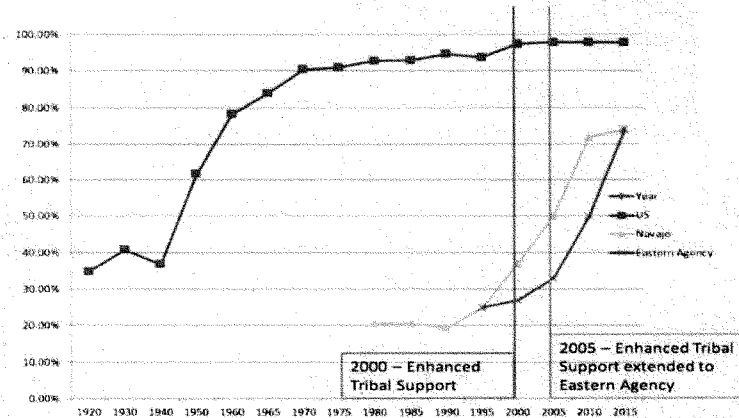
USAC has instructed Cellular One to obtain documents from approximately 3,000 customers to verify their identity for Lifeline purposes with a time limit of 45 days. Most of these customers, living in some of the most unreachable areas in the country, have no mail service to their homes. Some have no or limited electricity, so keep their Lifeline phones turned off except for emergency use. Many are elderly and disabled. Especially in winter, it is a serious challenge for people in these areas to travel long distances. In recent days, Vice President Nez and I declared a state of emergency throughout Navajo Nation due to severe winter weather. Yet USAC demands that all of these people travel these distances by February 18, 2017, in the middle of the long Navajo winter or lose their phones.

I understand that Cellular One has been doing intensive outreach in response to USAC's instruction, but more than a thousand customers remain. These customers need time to have a chance to provide these papers.

Our Navajo Nation Telecommunications Regulatory Commission (NNTRC) has tried to keep the FCC abreast of the unique challenges faced by the Navajo Nation in bringing even basic telephone service to its people. Yet they tell me that in a recent report released by the FCC just last month, the data show that since the FCC has adopted "reforms" in the Lifeline service, participation by people on tribal lands has dropped 65 percent (from a high of 858,420 participants to a current level of 299,965), while participation by subscribers in non-tribal areas has been reduced by less than 30 percent. It appears that these reforms have had a highly disproportional and draconian effect on Native Americans.

The Lifeline Program is essential to the Navajo Nation, both because it provides a subsidy to many Navajos who otherwise could not afford phone service, and by providing a stable subscriber base for carriers who are then willing to expand infrastructure to reach even more subscribers. The chart below, prepared by my NNTRC, and previously submitted to the FCC, shows what has happened since the beginning of the Lifeline program.

Comparison of U.S. Telephone Penetration and Navajo Nation Telephone Penetration



As you can see, when the Lifeline Program began in 1985, barely 20 percent of Navajos had telephones. That number didn't really begin to increase until the FCC adopted the "Tier 4" Enhanced Lifeline subsidy in 2000 (and even that was slightly stalled because the FCC didn't consider the New Mexico portion of the Navajo Nation (the "Eastern Agency") to be Tribal lands until 2005). Today approximately 75 percent of Navajos have telephones, but that is only comparable to nationwide telephone penetration during the Eisenhower Administration in the 1950s.

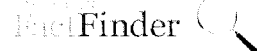
Thousands of Navajos have already lost their Lifeline phones. Thousands more losing their phones because USAC will cut them off in the dead of winter may jeopardize the viability of the telephone system on the Navajo Nation. I implore you to step in and direct USAC to work with the carriers and our NNTRC to resolve this issue in a way that doesn't jeopardize the safety of my people.

Respectfully,

THE NAVAJO NATION

Russell Begaye
Russell Begaye, President

Cc: Commissioner Mignon Clyburn
Commissioner Michael O'Reilly
Office of Native Affairs and Policy



DP04

SELECTED HOUSING CHARACTERISTICS

Exhibit C

2015 American Community Survey 1-Year Estimates

Supporting documentation on code lists, subject definitions, data accuracy, and statistical testing can be found on the American Community Survey website in the Data and Documentation section.

Sample size and data quality measures (including coverage rates, allocation rates, and response rates) can be found on the American Community Survey website in the Methodology section.

Although the American Community Survey (ACS) produces population, demographic and housing unit estimates, it is the Census Bureau's Population Estimates Program that produces and disseminates the official estimates of the population for the nation, states, counties, cities and towns and estimates of housing units for states and counties.

Subject	Navajo Nation Reservation and Off-Reservation Trust Land, AZ--NM--UT			
	Estimate	Margin of Error	Percent	Percent Margin of Error
HOUSING OCCUPANCY				
Total housing units	68,019	+/-1,948	68,019	(X)
Occupied housing units	46,212	+/-1,777	67.9%	+/-1.4
Vacant housing units	21,807	+/-1,062	32.1%	+/-1.4
Homeowner vacancy rate	0.0	+/-0.1	(X)	(X)
Rental vacancy rate	7.5	+/-2.1	(X)	(X)
UNITS IN STRUCTURE				
Total housing units	68,019	+/-1,948	68,019	(X)
1-unit, detached	48,664	+/-1,651	71.5%	+/-1.4
1-unit, attached	1,378	+/-348	2.0%	+/-0.5
2 units	974	+/-245	1.4%	+/-0.4
3 or 4 units	1,206	+/-310	1.8%	+/-0.5
5 to 9 units	529	+/-209	0.8%	+/-0.3
10 to 19 units	238	+/-198	0.3%	+/-0.3
20 or more units	16	+/-27	0.0%	+/-0.1
Mobile home	14,974	+/-995	22.0%	+/-1.3
Boat, RV, van, etc.	40	+/-65	0.1%	+/-0.1
YEAR STRUCTURE BUILT				
Total housing units	68,019	+/-1,948	68,019	(X)
Built 2014 or later	215	+/-146	0.3%	+/-0.2
Built 2010 to 2013	875	+/-228	1.3%	+/-0.3
Built 2000 to 2009	9,604	+/-862	14.1%	+/-1.2
Built 1990 to 1999	16,197	+/-1,046	23.8%	+/-1.3
Built 1980 to 1989	16,045	+/-855	23.6%	+/-1.1
Built 1970 to 1979	13,823	+/-889	20.3%	+/-1.1
Built 1960 to 1969	7,662	+/-723	11.3%	+/-1.1
Built 1950 to 1959	2,281	+/-392	3.3%	+/-0.6
Built 1940 to 1949	748	+/-217	1.1%	+/-0.3
Built 1939 or earlier	589	+/-182	0.9%	+/-0.3

Subject	Navajo Nation Reservation and Off-Reservation Trust Land, AZ--NM--UT			
	Estimate	Margin of Error	Percent	Percent Margin of Error
ROOMS				
Total housing units	68,019	+/-1,948	68,019	(X)
1 room	12,521	+/-827	18.4%	+/-1.1
2 rooms	5,531	+/-551	8.1%	+/-0.7
3 rooms	5,948	+/-524	8.7%	+/-0.9
4 rooms	14,596	+/-851	21.5%	+/-1.2
5 rooms	19,893	+/-1,101	29.2%	+/-1.3
6 rooms	6,370	+/-561	9.4%	+/-0.8
7 rooms	1,965	+/-326	2.9%	+/-0.5
8 rooms	676	+/-216	1.0%	+/-0.3
9 rooms or more	519	+/-189	0.8%	+/-0.3
Median rooms	4.2	+/-0.1	(X)	(X)
BEDROOMS				
Total housing units	68,019	+/-1,948	68,019	(X)
No bedroom	12,730	+/-853	18.7%	+/-1.1
1 bedroom	8,595	+/-696	12.6%	+/-1.0
2 bedrooms	16,209	+/-952	23.8%	+/-1.3
3 bedrooms	23,790	+/-1,279	35.0%	+/-1.5
4 bedrooms	5,611	+/-559	8.2%	+/-0.8
5 or more bedrooms	1,084	+/-253	1.6%	+/-0.4
HOUSING TENURE				
Occupied housing units	46,212	+/-1,777	46,212	(X)
Owner-occupied	35,751	+/-1,514	77.4%	+/-1.5
Renter-occupied	10,461	+/-823	22.6%	+/-1.5
Average household size of owner-occupied unit	3.81	+/-0.16	(X)	(X)
Average household size of renter-occupied unit	3.72	+/-0.25	(X)	(X)
YEAR HOUSEHOLDER MOVED INTO UNIT				
Occupied housing units	46,212	+/-1,777	46,212	(X)
Moved in 2015 or later	1,458	+/-398	3.2%	+/-0.8
Moved in 2010 to 2014	7,321	+/-828	15.8%	+/-1.7
Moved in 2000 to 2009	12,496	+/-991	27.0%	+/-1.7
Moved in 1990 to 1999	11,488	+/-845	24.9%	+/-1.7
Moved in 1980 to 1989	7,191	+/-652	15.6%	+/-1.3
Moved in 1979 and earlier	6,258	+/-621	13.5%	+/-1.3
VEHICLES AVAILABLE				
Occupied housing units	46,212	+/-1,777	46,212	(X)
No vehicles available	6,335	+/-632	13.7%	+/-1.2
1 vehicle available	17,545	+/-1,125	38.0%	+/-1.9
2 vehicles available	13,259	+/-1,014	28.7%	+/-1.9
3 or more vehicles available	9,073	+/-683	19.6%	+/-1.4
HOUSE HEATING FUEL				
Occupied housing units	46,212	+/-1,777	46,212	(X)
Utility gas	5,005	+/-575	10.8%	+/-1.1
Bottled, tank, or LP gas	3,856	+/-490	8.3%	+/-1.0
Electricity	5,584	+/-604	12.1%	+/-1.3
Fuel oil, kerosene, etc.	129	+/-96	0.3%	+/-0.2
Coal or coke	276	+/-113	0.6%	+/-0.2
Wood	29,656	+/-1,362	64.2%	+/-1.6
Solar energy	80	+/-81	0.2%	+/-0.2
Other fuel	1,408	+/-348	3.0%	+/-0.7
No fuel used	218	+/-120	0.5%	+/-0.3

Subject	Navajo Nation Reservation and Off-Reservation Trust Land, AZ--NM--			
	Estimate	Margin of Error	Percent	Percent Margin of Error
SELECTED CHARACTERISTICS				
Occupied housing units	46,212	+/-1,777	46,212	(X)
Lacking complete plumbing facilities	8,537	+/-779	18.5%	+/-1.6
Lacking complete kitchen facilities	6,361	+/-691	13.8%	+/-1.4
No telephone service available	7,146	+/-673	15.5%	+/-1.3
OCCUPANTS PER ROOM				
Occupied housing units	46,212	+/-1,777	46,212	(X)
1.00 or less	37,773	+/-1,620	81.7%	+/-1.6
1.01 to 1.50	3,847	+/-521	8.3%	+/-1.1
1.51 or more	4,592	+/-503	9.9%	+/-1.0
VALUE				
Owner-occupied units	35,751	+/-1,514	35,751	(X)
Less than \$50,000	18,421	+/-1,101	51.5%	+/-2.1
\$50,000 to \$99,999	9,027	+/-733	25.2%	+/-1.7
\$100,000 to \$149,999	3,731	+/-466	10.4%	+/-1.3
\$150,000 to \$199,999	2,532	+/-435	7.1%	+/-1.2
\$200,000 to \$299,999	871	+/-241	2.4%	+/-0.7
\$300,000 to \$499,999	591	+/-198	1.7%	+/-0.5
\$500,000 to \$999,999	499	+/-202	1.4%	+/-0.6
\$1,000,000 or more	79	+/-57	0.2%	+/-0.2
Median (dollars)	48,000	+/-2,743	(X)	(X)
MORTGAGE STATUS				
Owner-occupied units	35,751	+/-1,514	35,751	(X)
Housing units with a mortgage	4,089	+/-521	11.4%	+/-1.3
Housing units without a mortgage	31,662	+/-1,404	88.6%	+/-1.3
SELECTED MONTHLY OWNER COSTS (SMOC)				
Housing units with a mortgage	4,089	+/-521	4,089	(X)
Less than \$500	875	+/-234	21.4%	+/-4.4
\$500 to \$999	2,455	+/-382	60.0%	+/-5.7
\$1,000 to \$1,499	610	+/-151	14.9%	+/-3.8
\$1,500 to \$1,999	93	+/-76	2.3%	+/-1.8
\$2,000 to \$2,499	56	+/-80	1.4%	+/-1.9
\$2,500 to \$2,999	0	+/-189	0.0%	+/-3.5
\$3,000 or more	0	+/-189	0.0%	+/-3.5
Median (dollars)	684	+/-38	(X)	(X)
Housing units without a mortgage	31,662	+/-1,404	31,662	(X)
Less than \$250	22,582	+/-1,271	71.3%	+/-2.2
\$250 to \$399	5,817	+/-572	18.4%	+/-1.7
\$400 to \$599	2,437	+/-412	7.7%	+/-1.3
\$600 to \$799	621	+/-168	2.0%	+/-0.5
\$800 to \$999	146	+/-98	0.5%	+/-0.3
\$1,000 or more	59	+/-51	0.2%	+/-0.2
Median (dollars)	179	+/-5	(X)	(X)
SELECTED MONTHLY OWNER COSTS AS A PERCENTAGE OF HOUSEHOLD INCOME (SMOCAP)				
Housing units with a mortgage (excluding units where SMOCAP cannot be computed)	3,915	+/-504	3,915	(X)
Less than 20.0 percent	2,095	+/-416	53.5%	+/-6.8
20.0 to 24.9 percent	479	+/-175	12.2%	+/-4.4
25.0 to 29.9 percent	217	+/-122	5.5%	+/-3.1
30.0 to 34.9 percent	219	+/-98	5.6%	+/-2.5
35.0 percent or more	905	+/-264	23.1%	+/-6.1

Subject	Navajo Nation Reservation and Off-Reservation Trust Land, AZ--NM--UT			
	Estimate	Margin of Error	Percent	Percent Margin of Error
Not computed	174	+/-100	(X)	(X)
Housing unit without a mortgage (excluding units where SMOCAPI cannot be computed)	29,142	+/-1,330	29,142	(X)
Less than 10.0 percent	16,850	+/-989	57.8%	+/-2.3
10.0 to 14.9 percent	4,382	+/-566	15.0%	+/-1.8
15.0 to 19.9 percent	2,521	+/-447	8.7%	+/-1.4
20.0 to 24.9 percent	1,267	+/-219	4.3%	+/-0.7
25.0 to 29.9 percent	892	+/-316	3.1%	+/-1.1
30.0 to 34.9 percent	678	+/-220	2.3%	+/-0.7
35.0 percent or more	2,552	+/-447	8.8%	+/-1.4
Not computed	2,520	+/-382	(X)	(X)
GROSS RENT				
Occupied units paying rent	8,607	+/-739	8,607	(X)
Less than \$500	4,392	+/-609	51.0%	+/-5.2
\$500 to \$999	3,711	+/-519	43.1%	+/-5.3
\$1,000 to \$1,499	383	+/-166	4.4%	+/-1.9
\$1,500 to \$1,999	121	+/-174	1.4%	+/-2.0
\$2,000 to \$2,499	0	+/-189	0.0%	+/-1.7
\$2,500 to \$2,999	0	+/-189	0.0%	+/-1.7
\$3,000 or more	0	+/-189	0.0%	+/-1.7
Median (dollars)	491	+/-40	(X)	(X)
No rent paid	1,854	+/-325	(X)	(X)
GROSS RENT AS A PERCENTAGE OF HOUSEHOLD INCOME (GRAPI)				
Occupied units paying rent (excluding units where GRAPI cannot be computed)	8,120	+/-727	8,120	(X)
Less than 15.0 percent	3,538	+/-550	43.6%	+/-5.3
15.0 to 19.9 percent	1,193	+/-341	14.7%	+/-3.9
20.0 to 24.9 percent	725	+/-226	8.9%	+/-2.8
25.0 to 29.9 percent	471	+/-209	5.8%	+/-2.5
30.0 to 34.9 percent	388	+/-184	4.8%	+/-2.2
35.0 percent or more	1,805	+/-348	22.2%	+/-4.0
Not computed	2,341	+/-388	(X)	(X)

Data are based on a sample and are subject to sampling variability. The degree of uncertainty for an estimate arising from sampling variability is represented through the use of a margin of error. The value shown here is the 90 percent margin of error. The margin of error can be interpreted roughly as providing a 90 percent probability that the interval defined by the estimate minus the margin of error and the estimate plus the margin of error (the lower and upper confidence bounds) contains the true value. In addition to sampling variability, the ACS estimates are subject to nonsampling error (for a discussion of nonsampling variability, see Accuracy of the Data). The effect of nonsampling error is not represented in these tables.

Households not paying cash rent are excluded from the calculation of median gross rent.

While the 2015 American Community Survey (ACS) data generally reflect the February 2013 Office of Management and Budget (OMB) definitions of metropolitan and micropolitan statistical areas, in certain instances the names, codes, and boundaries of the principal cities shown in ACS tables may differ from the OMB definitions due to differences in the effective dates of the geographic entities.

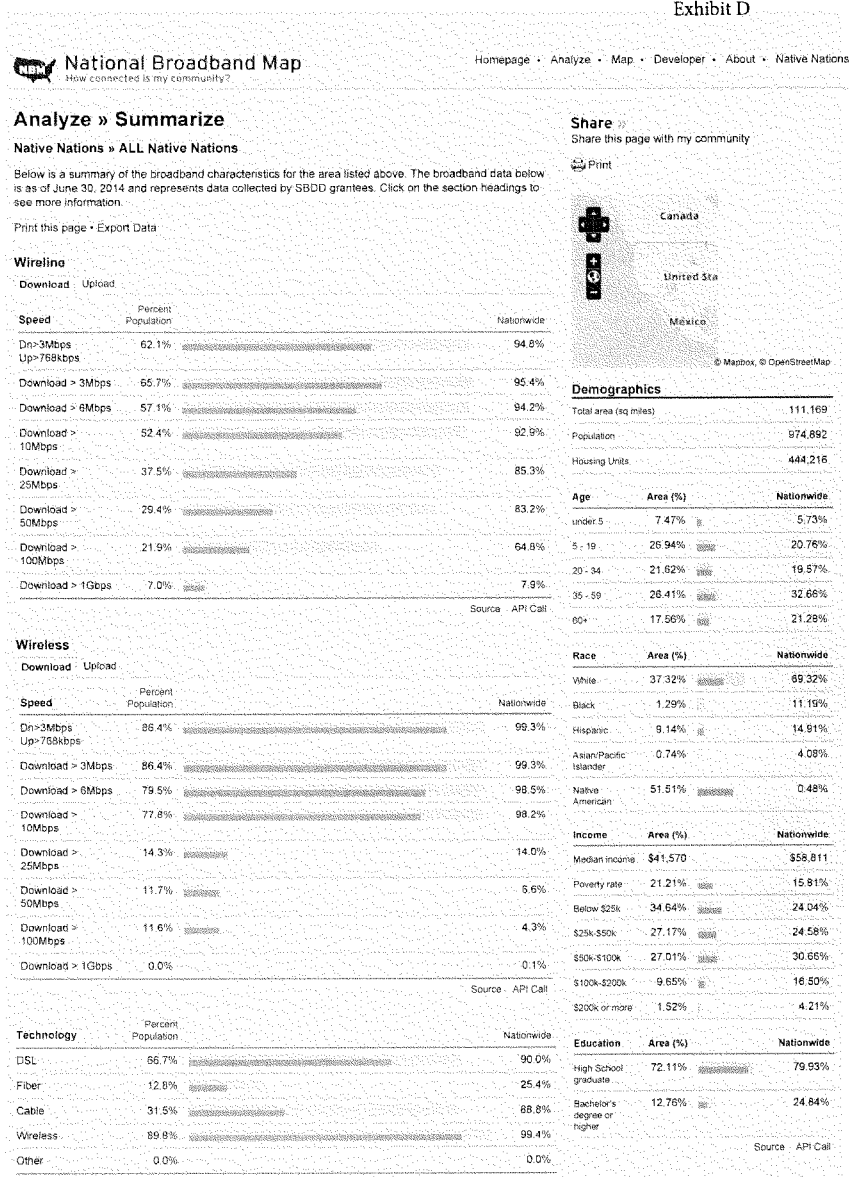
Estimates of urban and rural population, housing units, and characteristics reflect boundaries of urban areas defined based on Census 2010 data. As a result, data for urban and rural areas from the ACS do not necessarily reflect the results of ongoing urbanization.

Source: U.S. Census Bureau, 2015 American Community Survey 1-Year Estimates

Explanation of Symbols:

1. An "" entry in the margin of error column indicates that either no sample observations or too few sample observations were available to compute a standard error and thus the margin of error. A statistical test is not appropriate.
2. An "" entry in the estimate column indicates that either no sample observations or too few sample observations were available to compute an estimate or a ratio of medians cannot be calculated because one or both of the median estimates falls in the lowest interval or upper interval of an open-ended distribution.
3. An '-' following a median estimate means the median falls in the lowest interval of an open-ended distribution.
4. An '+' following a median estimate means the median falls in the upper interval of an open-ended distribution.
5. An "" entry in the margin of error column indicates that the median falls in the lowest interval or upper interval of an open-ended distribution. A statistical test is not appropriate.
6. An "" entry in the margin of error column indicates that the estimate is controlled. A statistical test for sampling variability is not appropriate.
7. An 'N' entry in the estimate and margin of error columns indicates that data for this geographic area cannot be displayed because the number of sample cases is too small.
8. An '(X)' means that the estimate is not applicable or not available.

Exhibit D



Source API Call

Map »

Map my community

Rank »

Rank my community

Provider »

View statistics about providers

Broadband Classroom »

Learn more about broadband

Engage »

Build a better map for my community

Blog »

Your Feedback is Important!
posted by Anne Neville on February 16, 2011

Updates »

Sign up and receive updates about the National
Broadband Map

Number of Internet Providers

Wireline Wireless

#	Percent Population	Nationwide
0	22.5%	3.0%
1	43.1%	8.6%
2	21.6%	32.4%
3	6.4%	36.9%
4	3.2%	13.7%
5	2.8%	3.5%
6	0.3%	1.3%
7	0.0%	0.4%
8+	0.0%	0.1%

Source API Call

Broadband Speed Test (Mbps)

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Location	Cumulative Tests	25 th percentile	median speed (Mbps)	75 th percentile
Home	1,034	1.2	8.5	
Schools, Libraries, Community Centers	145	1.4	4.0	
Medium/Large Business	103	1.5	10.2	
Small Business	132	1.4	8.5	
Mobile	4,443	0.5	4.2	
Other	29	0.5	23.1	

Source API Call

Community Anchor Institutions

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Institution	Total Number of Records	Subscribe to Broadband			
		Yes	No	Not Provided	Speeds Reported
Schools K through 12	670	445	2	223	406
University, College, other post-secondary	68	31	0	37	29
Libraries	168	106	1	61	97
Medical / Healthcare	241	80	1	160	60
Public Safety	575	84	80	411	58
Community Centers - Government support	350	238	3	109	192
Community Centers - Non-Government support	98	41	0	57	36

Source API Call

Download Community Anchor Institutions data on the download page

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results: 6.51 seconds

Analyze » Summarize

Native Nations » Navajo Nation

Below is a summary of the broadband characteristics for the area listed above. The broadband data below is as of June 30, 2014 and represents data collected by SBDO grantees. Click on the section headings to see more information.

[Print this page](#) • [Export Data](#)

Wireline

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Speed	Percent Population	Nationwide
Down > 3Mbps	26.1%	94.8%
Up > 768kbps		
Download > 3Mbps	27.2%	95.4%
Download > 6Mbps	19.4%	94.2%
Download > 10Mbps	18.8%	92.9%
Download > 25Mbps	3.8%	85.3%
Download > 50Mbps	1.1%	83.2%
Download > 100Mbps	1.1%	64.8%
Download > 1Gbps	0.0%	7.9%

Source: API Call

Wireless

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Speed	Percent Population	Nationwide
Down > 3Mbps	55.8%	99.3%
Up > 768kbps		
Download > 3Mbps	55.8%	99.3%
Download > 6Mbps	48.0%	98.5%
Download > 10Mbps	47.8%	98.2%
Download > 25Mbps	0.0%	14.0%
Download > 50Mbps	0.0%	8.8%
Download > 100Mbps	0.0%	4.3%
Download > 1Gbps	0.0%	0.1%

Source: API Call

Technology	Percent Population	Nationwide
DSL	59.2%	90.0%
Fiber	0.2%	25.4%
Cable	0.2%	88.8%
Wireless	52.4%	99.4%
Other	0.0%	0.0%

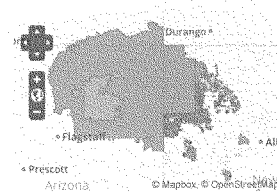
Source: API Call

Number of Internet Providers

Share

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Demographics

Total area (sq miles)	23,294
Population	151,251
Housing Units	71,445

Age	Area (%)	Nationwide
under 5	8.46%	5.73%
6 - 19	31.11%	20.76%
20 - 34	24.89%	19.57%
35 - 59	24.41%	32.66%
60+	11.11%	21.28%

Race	Area (%)	Nationwide
White	1.47%	69.32%
Black	0.02%	11.19%
Hispanic	1.50%	14.91%
Asian/Pacific Islander	0.08%	4.08%
Native American	96.93%	0.48%

Income	Area (%)	Nationwide
Median income	\$28,039	\$58,811
Poverty rate	29.38%	15.81%
Below \$25k	49.29%	24.04%
\$25k-\$50k	24.79%	24.56%
\$50k-\$100k	20.43%	30.66%
\$100k-\$200k	5.07%	16.50%
\$200k or more	0.42%	4.21%

Education	Area (%)	Nationwide
High School graduate	56.40%	79.93%
Bachelor's degree or higher	6.67%	24.84%

Source: API Call

Wireline Wireless

#	Percent Population	Nationwide
0	38.8%	3.0%
1	58.6%	8.8%
2	2.6%	32.4%
3	0.0%	36.9%
4	0.0%	13.7%
5	0.0%	3.6%
6	0.0%	1.3%
7	0.0%	0.4%
8+	0.0%	0.1%

Source API Call

Map »

Map my community

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Broadband Speed Test (Mbps)

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Location	Cumulative Tests	20 th percentile	Median speed (Mbps)	75 th percentile
Home	40	0.8	3.1	
Schools, Libraries, Community Centers	1			89.3
Medium/Large Business	5	1.2	2.9	
Small Business	0			
Mobile	237	0.1	1.5	
Other	0			
Source	API Call			89.3

Community Anchor Institutions

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Institution	Total Number of Records	Subscribe to Broadband			
		Yes	No	Not Provided	Speeds Reported
Schools K through 12	89	38	0	51	33
University, College, other post-secondary	18	5	0	13	5
Libraries	10	4	0	6	4
Medical / Healthcare	42	9	0	33	9
Public Safety	37	1	0	36	1
Community Centers - Government support	76	50	1	25	30
Community Centers - Non-Government support	3	3	0	0	3
Source	API Call				

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NATIONAL GRANGE

OF THE ORDER OF PATRONS OF HUSBANDRY

1616 H St. NW, Washington, DC 20006 | 888-4-GRANGE
www.nationalgrange.org | information@nationalgrange.org

September 12, 2017

The Honorable Ron Johnson, Chairman
 Senate Committee on Homeland Security and Governmental Affairs
 328 Hart Senate Office Building
 Washington, DC 20510

The Honorable Claire McCaskill, Ranking Minority Member
 Senate Committee on Homeland Security and Governmental Affairs
 503 Hart Senate Office Building
 Washington, DC 20510

Dear Chairman Johnson and Senator McCaskill:

The National Grange, the nation's oldest rural advocacy organization, appreciates the work reflected in the Government Accountability Office (GAO) report on the Federal Communications Commission's (FCC) Lifeline program. While the report details problems and vulnerabilities of the program, the Grange urges continued support for the Universal Service Fund's Lifeline program and the many rural Americans it currently serves.

Through the Lifeline program, substantial numbers of low-income Americans – including millions in rural areas of our nation – are able to communicate with prospective and current employers, connect with emergency, health, social, and educational services, and keep in touch with family and friends. There are currently as many as 15 million low-income households who, without Lifeline benefits, would have to choose between feeding their children and going without a dial tone that could save their lives or put them on a better economic path through employment.

A survey of Lifeline users indicated that nearly 70% use their Lifeline service to pursue employment and remain employed. In today's challenging economy, giving these individuals the resources they need to join or remain in the workforce is an absolute must. Rural America in particular needs Lifeline to remain connected and as a backstop in the many areas in which landline-based high-speed broadband is not available.

We recognize that, as is true of many government programs, there have been issues with Lifeline. That is why we strongly support the actions of the Federal Communications Commission (FCC) to reform and modernize the Lifeline program to eliminate waste, fraud and abuse and to improve effectiveness and to reflect the changing needs of the communities served by Lifeline. We will continue to work with companies, government and Congress to find solutions to these challenges and to make the program more efficient and to reduce fraud and abuse.

The National Grange remains resolute in our backing of the Lifeline program and would encourage members of Congress and the FCC to continue to support Lifeline's ability to provide both wireline and wireless phone services. Rural America needs Lifeline and needs to have this important program fixed rather than sidelined.

Thank you,

A handwritten signature in cursive script that reads "Betsy E. Huber".

Betsy Huber, President

CC: Committee Staff



THE NAVAJO NATION

RUSSELL BEGAYE, PRESIDENT
JONATHAN NEZ, VICE PRESIDENT

STATEMENT OF
RUSSELL BEGAYE
PRESIDENT OF THE NAVAJO NATION
BEFORE THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
September 14, 2017
"FCC's Lifeline Program: A Case Study of Government Waste and Mismanagement"

Chairman Johnson and Members of the Committee, thank you for the opportunity to provide this Statement concerning your September 14, 2017 hearing entitled: "FCC's Lifeline Program: A Case Study of Government Waste and Mismanagement." I would like to make three points in response to the testimony presented:

- 1) The Navajo Nation provides the best case study of how the Lifeline Program has worked effectively and efficiently to increase telephone penetration;
- 2) The Lifeline reforms initiated in 2012 have disproportionately harmed Native Americans, the most vulnerable population in the United States;
- 3) The National Verifier will exacerbate this disproportionate impact unless Indian tribes participate in the verification process.

At the hearing on September 6, 2017, witnesses testified that the Lifeline Program is ineffective, inefficient, and questioned whether the entire program should be eliminated. Furthermore, it was stated that there is no evidence that the Lifeline program actually increases telephone penetration and use and that most Lifeline subscribers would continue to pay for service even if their subsidies were removed. Witnesses including the Government Accountability Office (GAO), stated a new National Verifier system will improve the program. As I will discuss, all of those statements are incorrect and assumptions, when looking from the Navajo perspective.

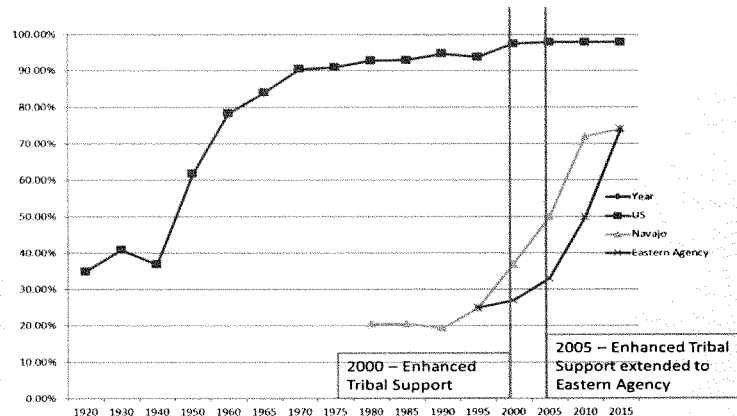
- 1) **The Navajo Nation provides the best case study of how the Lifeline Program has worked effectively and efficiently to increase telephone penetration**

As the largest land based Indian tribe, the Navajo Nation consists of 17 million acres (26,111 square miles) in portions of three states (Arizona, New Mexico, and Utah). The Navajo Nation is comparable in size to West Virginia. If the Navajo Nation were a state, the Navajo Nation would rank as the 4th smallest in population density; with only Montana (6.5 persons per square mile), Wyoming (5.4) and Alaska (1.2) being less densely populated.

On Navajo, we struggle to combat other demographics that are barriers to Federal and state communications policies that are not focused on serving Native Americans. The Navajo Nation has a 42 percent unemployment rate, and median family income that is half of the state of Arizona, where the majority of the Navajo Nation is located. There are 38 percent of Navajo people that live below the federal poverty line. Just 20 years ago, telephone penetration on the Navajo Nation stood at 25% meaning approximately one in four Navajos had a phone. It was only after the FCC established Enhanced Tribal Lifeline ("Tier 4") Support that telephones began appearing on the Navajo Nation with any regularity. The chart (Figure I) below shows the slow but steady progress that Lifeline made.

Figure I:
Telephone Penetration in U.S. and Navajo Nation by Decade

Comparison of U.S. Telephone Penetration and Navajo Nation Telephone Penetration



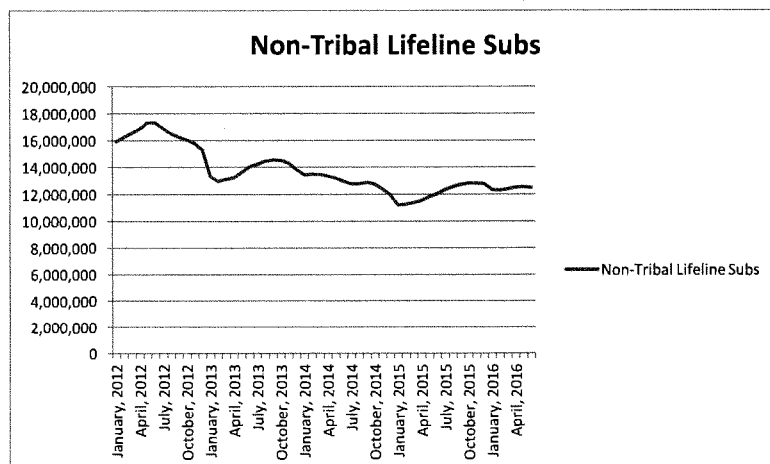
It is important to point out that the US remains relatively flat from 1965 to 2015 when compared to Navajo, where there are large increases in telephone penetration. Also, it is critical to note that initially the FCC did not extend Tier 4 support to the Navajo Eastern Agency (New Mexico) because of the land status inconsistencies in that particular region. Telephone penetration continued to languish in the Eastern Agency until 2005, when the FCC issued an order extending Tier 4 Support to the Eastern Agency.¹ There can be no better “controlled” study to demonstrate the importance of the Lifeline Program to bring telephone service to those who had never had a telephone. It was only after the FCC extended Tier 4 Support that carriers began to build out large portions of the Navajo Nation that were without service. Without the stable subscriber base that Lifeline provides, no carriers could close the business case to build on Navajo Nation. Remove those subsidies, and carriers can’t afford to continue offering service to Navajo people.

¹ *Smith Bagley, Inc.*, FCC 05-77 in WC Docket No. 03-109, released March 20, 2005.

2) **The Lifeline reforms initiated in 2012 have disproportionately harmed Native Americans, the most vulnerable population in the United States.**

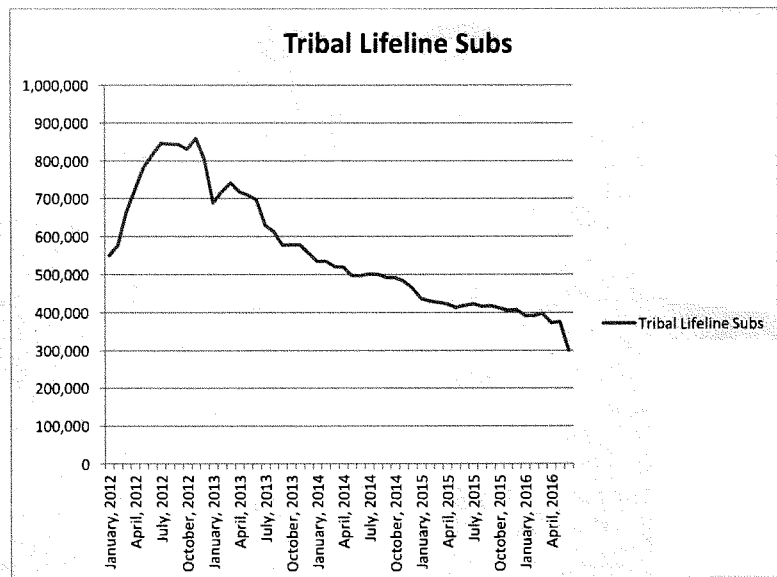
Since the 2012 Lifeline Reform Order, Lifeline subscribership has plummeted in Indian Country. According to the 2016 Universal Service Monitoring Report,² since the height of enrollment in the Lifeline Program in May, 2012, the overall rolls have been reduced by more than 35% nationwide. However, Lifeline participation in Indian Country has been reduced by over 65%, as depicted in the table at the end of this document (Figure III). Moreover, whereas non-Tribal lifeline subscribers rebounded slightly after January, 2015 (and increased by 1.3 million subscribers), Lifeline subscription in Indian Country continues in a tailspin, as depicted in the graphs below (Figure II).³

Figure II:



² This report is available for download at: <http://www.fcc.gov/encyclopedia/federal-state-joint-board-monitoring-reports>.

³ The attached charts and graphs are derived from the 2016 Universal Service Monitoring Report, p. 28, Table 2.6.



If Oklahoma eligible telecommunications carriers (ETCs) are set aside, the 13 ETCs fined for violating the Lifeline rules by signing up ineligible and fictitious subscribers are not operating in Indian Country. Native Americans are not the source of the “waste, fraud and abuse,” yet are disproportionately being dropped from the Lifeline Program.

Through process of elimination, it is most likely because of the recertification process. I speak from experience when I say that this federally recommended and endorsed “redtape” philosophy has a negative direct impact on a normal day’s freedom for Navajo people. So much so that Chairman Pai had to recently intervene with USAC on behalf of one carrier serving the Navajo Nation that simply couldn’t complete the certification process for such a large population in the time prescribed under

USAC's rules. If Congress wants a truly fair Lifeline Program, it should order the FCC to study this disparity and enact changes that do not have the effect of discriminating against a single community.

According to U.S. census statistics, Native Americans as a group have the highest percentage living below the poverty line (28 percent), almost twice the national average of 14.3 percent.⁴ Nine states have poverty rates above 30 percent for Native Americans (Arizona, Maine, Minnesota, Montana, Nebraska, New Mexico, North Dakota, South Dakota, and Utah), and it is no surprise that this includes nine of the ten largest reservations.⁵ People qualify for Lifeline support if they are at or below 135% of the U.S. Poverty line. This is a clear indication that Native Americans living on reservations are even more likely to qualify for Lifeline support.⁶

While some of the disparity in Lifeline reduction rates might be because of non-financial changes to the Lifeline rules (including enforcing the "one phone per house" rule), that can't explain the reduction in Tribal Lifeline subscribers being twice that of non-Tribal Lifeline subscribers. The answer must lie within the recertification process.

The current recertification process, conducted by carriers, is onerous. Many Navajo Lifeline participants live 100 or more miles from the nearest store where they can interact with telephone carriers. Many live in areas with little cellular service, so calls from carriers trying to recertify them can't reach them and often times texts from carriers are dismissed as spam or marketing material. Thirty percent of Navajos don't even have electricity in their homes to charge their phones. Subscribers who don't use their phones for 60 days are automatically de-enrolled. Many ETCs have native speakers who can assist Tribal Lifeline subscribers through the process. Nonetheless, for a variety of reasons, including language, culture, and a distrust of providing anyone private information

⁴ See <https://www.census.gov/prod/2013pubs/acsbr11-17.pdf> (data through 2011).

⁵ U.S. Census Bureau (2000). U.S. Census Fact Finder. Washington, D.C.: U.S. Census Bureau.

⁶ *Id.*, p. 2.

about themselves, Native Americans are not getting recertified at alarming rates, even after many tribal communities have undertaken extensive education efforts for their tribal governments.

3) **The National Verifier will exacerbate this disproportionate impact unless Tribes participate in the verification process.**

At the September 6, 2017 hearing, several of those testifying indicated that the new National Verifier could greatly improve the accountability of carriers and the Lifeline Program. If the goal of the National Verifier is to find ways to reduce the rolls of Lifeline, then it will no doubt be a success. If the goal of the National Verifier is to establish a system that correctly determines eligibility, its implementation dooms it to utter failure. For example, according to the USAC website,⁷ New Mexico is one of the six “pilot” states that will be rolled out early next year, yet the databases that will be available from New Mexico to the National Verifier will only be SNAP and Medicaid. There is *no* indication that the National Verifier will have access to any Navajo Nation benefit program databases that will include for example a food distribution program that is administered by the Navajo Nation. For Navajos living on the Navajo Nation’s Eastern Agency located in New Mexico, that means there is a huge loophole in the criteria that is simple not going to be successful. The FCC’s 2016 Order stated:

“We direct USAC to seek the most cost effective and efficient means to incorporate electronic eligibility certification into the National Verifier wherever feasible. We expect USAC and the Bureau to work closely with the states, other federal agencies, and Tribal Nations to foster partnerships that will help the National Verifier develop the most efficient pathways to determining subscriber eligibility.”⁸

To my knowledge, the Navajo Nation government has not been contacted by USAC concerning gaining access to Navajo Nation databases that would determine eligibility. If the eligibility database for New Mexico only contains SNAP and Medicaid data, Navajos will be excluded from the automated

⁷ See <https://usac.org/li/tools/national-verifier/default.aspx>.

⁸ *In the Matter of Lifeline and Link Up Reform and Modernization, Third Report and Order, Further Report and order, and Order on Reconsideration*, ¶ 135 (WC Docket No. 11-42, April 27, 2016).

recertification process, that already has barriers. Instead, they will be subject to manual recertification in a process that is even more onerous than that imposed by the FCC in 2012.⁹ Rather than certifying that they remain eligible, Navajos will have to produce paperwork demonstrating that they qualify. The National Verifier Plan states that only English and Spanish will be used, so Navajo speaking subscribers will be further discriminated against.¹⁰

I suspect this will lead to the removal of hundreds, if not thousands, of Navajos who qualify for Lifeline, by not accounting for cultural appropriate services to provide a new and accurate delivery. Navajo people want to live on Navajo but they do not want more paperwork, more dangerous travel. Once again, the Lifeline Program is adopting measures that single out Native Americans for inequitable treatment. **Congress should seek to find out from USAC why they have ignored the FCC's directives to engage with Tribes.**

I suggest an alternative. The USAC must engage Indian tribes in this process, and utilize the expertise and Indian tribes' databases to certify eligibility and conduct the manual certification, if necessary. This can work. On August 22, 2017, at a FCC Tribal Consultation held on the Navajo, Chairman Pai heard from a representative of the Nez Perce Tribe in Idaho. The Nez Perce contracted with wireless ETCs serving the reservation to have the Tribe handle Lifeline recertification. The Nez Perce were able to recertify 98% of their Lifeline subscribers, and were able to confirm that the two percent that were no longer eligible had gained employment taking them above the income threshold, thus making the administration and verification process local. This is something that should be a model national policy goal for Indian policy and one that all should embrace.

⁹ See National Verifier Plan (July, 2017), at slides 47-48 (showing complexity of the process for a Native American to prove eligibility). <https://usac.org/res/documents/li/pdf/nv/Draft-National-Verifier-Plan.pdf>.

¹⁰ National Verifier Plan, *supra* note 9, slide 105.

Indian tribes are going to need financial assistance in carrying out the administration of this process. The *Third Report and Order* directed USAC to pay for the National Verifier Program through its administrative resources. The USAC should provide funding in proportion to Native American participation in the Lifeline Program to reimburse Tribes for their participation in integrating their databases into the National Eligibility Database, and conducting manual eligibility verification, if necessary. It is vital that those conducting the manual eligibility verification be able to communicate in Navajo, which the Navajo government can do.

Next, USAC could provide the Navajo Nation with the training to conduct the necessary certifications. Finally, because of the land base and amount of individual participate in the Lifeline Program, an Indian tribe would need some flexibility in the timing on the certification process.

If the real goal of Lifeline reform is to ensure that only eligible subscribers receive Lifeline subsidies, then let's work together to make that happen, not set up a system where Native Americans are forced further across the Digital Divide. The Navajo Nation government stands ready to work with Congress, the FCC, the USAC, and the National Verifier to establish an effective Lifeline verification program that works for Navajo people.

Thank you again for the opportunity to submit this Statement.

Figure III:
Lifeline Participation Since 2012

Month/yr	Tribal Lifeline Subs	Non-Tribal Lifeline Subs	Total	% Tribal
January, 2012	549,258	15,908,572	16,457,830	3.34%
February, 2012	575,873	16,238,084	16,813,957	3.42%
March, 2012	662,135	16,534,059	17,196,194	3.85%
April, 2012	722,144	16,848,841	17,570,985	4.11%
May, 2012	782,131	17,317,869	18,100,000	4.32%
June, 2012	815,448	17,320,169	18,135,617	4.50%
July, 2012	846,735	16,864,804	17,711,539	4.78%
August, 2012	843,864	16,515,337	17,359,201	4.86%
September, 2012	842,986	16,233,523	17,076,509	4.94%
October, 2012	831,010	16,019,555	16,850,565	4.93%
November, 2012	858,420	15,780,413	16,638,833	5.16%
December, 2012	804,793	15,276,872	16,081,665	5.00%
January, 2013	687,500	13,303,601	13,991,101	4.91%
February, 2013	717,866	12,944,960	13,662,826	5.25%
March, 2013	740,955	13,107,807	13,848,762	5.35%
April, 2013	717,869	13,230,187	13,948,056	5.15%
May, 2013	708,103	13,602,507	14,310,610	4.95%
June, 2013	695,699	14,016,431	14,712,130	4.73%
July, 2013	628,293	14,220,097	14,848,390	4.23%
August, 2013	611,198	14,445,164	15,056,362	4.06%
September, 2013	576,375	14,522,851	15,099,226	3.82%
October, 2013	578,042	14,498,009	15,076,051	3.83%
November, 2013	577,593	14,291,510	14,869,103	3.88%
December, 2013	555,234	13,825,919	14,381,153	3.86%
January, 2014	534,297	13,440,283	13,974,580	3.82%
February, 2014	534,514	13,500,445	14,034,959	3.81%
March, 2014	521,050	13,451,544	13,972,594	3.73%
April, 2014	518,193	13,353,226	13,871,419	3.74%
May, 2014	496,124	13,195,365	13,691,489	3.62%
June, 2014	497,065	12,960,680	13,457,745	3.69%
July, 2014	501,207	12,768,490	13,269,697	3.78%
August, 2014	499,504	12,760,942	13,260,446	3.77%
September, 2014	491,794	12,850,377	13,342,171	3.69%
October, 2014	490,887	12,738,688	13,229,575	3.71%
November, 2014	481,829	12,377,023	12,858,852	3.75%
December, 2014	463,711	11,937,157	12,400,868	3.74%
January, 2015	435,069	11,185,755	11,620,824	3.74%

February, 2015	428,917	11,232,909	11,661,826	3.68%
March, 2015	426,328	11,365,933	11,792,261	3.62%
April, 2015	421,320	11,528,461	11,949,781	3.53%
May, 2015	412,426	11,807,905	12,220,331	3.37%
June, 2015	417,384	12,025,179	12,442,563	3.35%
July, 2015	421,869	12,323,680	12,745,549	3.31%
August, 2015	415,091	12,544,240	12,959,331	3.20%
September, 2015	416,913	12,709,537	13,126,450	3.18%
October, 2015	411,406	12,815,696	13,227,102	3.11%
November, 2015	405,301	12,786,852	13,192,153	3.07%
December, 2015	407,253	12,756,858	13,164,111	3.09%
January, 2016	390,984	12,320,964	12,711,948	3.08%
February, 2016	391,732	12,293,281	12,685,013	3.09%
March, 2016	397,651	12,369,189	12,766,840	3.11%
April, 2016	372,256	12,494,820	12,867,076	2.89%
May, 2016	375,290	12,533,397	12,908,687	2.91%
June, 2016	299,965	12,473,765	12,773,730	2.35%
Maximum	858,420	17,320,169	18,135,617	5.35%
Minimum	299,965	11,185,755	11,620,824	2.35%
Variance	65.06%	35.42%	35.92%	

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Office of the Director

Federal Communications Commission
Office of Legislative Affairs
Washington, D.C. 20554

November 3, 2017

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Johnson:

Enclosed please find responses to Questions for the Record submitted for Chairman Ajit Pai regarding his appearance before the Homeland Security and Governmental Affairs Committee on September 14, 2017, at the hearing titled "FCC's Lifeline Program: A Case Study in Government Waste and Mismanagement."

If you have further questions, please contact me at (202) 418-2242.

Sincerely,

A handwritten signature in black ink, appearing to read "Timothy B. Strachan", is written over a horizontal line.

Timothy B. Strachan
Director

**Post-Hearing Questions for the Record
Submitted to the Honorable Ajit Pai
From Senator Heidi Heitkamp**

FCC's Lifeline Program: A Case Study of Government Waste and Mismanagement

September 14, 2017

- 1. It's my understanding that when universal service funds were maintained in a commercial bank, those accounts generated maybe tens of millions of dollars per year in interest. I presume those interest earnings were used to help administer the USF or for the purposes of the fund. Is the loss of that interest going to hurt the USF programs?**

Response: No. Transferring universal service monies to the Treasury will strengthen the program by reducing the risk of loss or misappropriation of more than \$8 billion in federal funds should they be held outside of Treasury. What is more, the USF program budgets and disbursements are established and determined pursuant to the Commission's orders and rules, and the move of universal service monies to Treasury does not change those processes.

- 2. Given the low subscribership on Tribal Lands, do you have plans to target outreach and education of Lifeline to the residents of Tribal lands in 2018 as part of your effort to bridge the digital divide?**

Response: I too am concerned about connecting residents of Tribal lands to digital opportunity. That's one reason why, earlier this year, I asked the Universal Service Administrative Company (USAC) to work to ensure residents on Tribal lands had sufficient ability to certify their qualifications to participate in the Lifeline program—and I'm pleased to say we were able to do so without risking taxpayer funds. Moreover, just last week I circulated a proposal to my colleagues to ensure that providers that receive enhanced Lifeline support for serving Tribal lands reinvest that support in broadband-capable networks on Tribal lands.

That's why I'm also glad to report that we already have in place tools to help connect Tribal residents. For example, USAC maintains an up-to-date toolkit and other Lifeline related materials for outreach to residents on Tribal lands.¹ Additionally, the Commission's Office of Native Affairs and Policy conducts regular Tribal Consultations in Washington, DC and on Tribal lands across the country.² These outreach efforts are intended both to educate the Tribes about Commission programs and to engage in conversations to better assist the Tribes.

¹ USAC, Community Outreach (last visited Oct. 30, 2017), <http://www.usac.org/ls/community-outreach.aspx>.

² FCC, Native Nations (Oct. 6, 2017), <https://www.fcc.gov/general/native-nations>.

**Post-Hearing Questions for the Record
From Senator James Lankford**

1. **I recognize the importance of the Lifeline program to serve those most in need for connectivity. We have previously discussed the unique issues facing the Lifeline program where companies target Oklahoma due to higher reimbursement rates associated with the tribal lands eligible for enhanced support. Oklahoma has the largest subscription rate for tribal recipients, representing 148,251 of the 269, 985 nationwide total. However, due to verification reforms and redefining of Oklahoma's Enhanced Lifeline Support maps, Oklahoma has seen subscription rates decline from its 2014 total of 313,773. To keep with the intent of the program and ensure that Lifeline funds are being spent in the most effective manner it is my suggestion the FCC examine refining the subscriber requirements for enhanced support. As the FCC continues implementing reforms with USAC and the Lifeline program, have you considered updating the verification requirements or processes for subscribers to the enhanced tribal support?**

Response: Yes. Just last week I proposed to my colleagues several improvements to the rules governing enhanced Lifeline support for Tribal lands. These changes would target enhanced Lifeline support to residents of rural areas on Tribal lands, establish mapping resources to identify rural Tribal lands for enhanced Lifeline support, require independent certification of residency on rural Tribal lands, and direct enhanced support to facilities-based providers.

If adopted, the amended rules would improve broadband deployment and curtail waste in the program by focusing enhanced Lifeline support on providers that are directly investing in networks on Tribal lands. The amended rules would also only allow a subscriber to receive enhanced Lifeline support if their residential address is on rural areas within federally-recognized Tribal Lands, according to mapping resources identified by the Commission. This would replace the existing system, in which subscribers self-certify that they reside on Tribal lands—a process unacceptably vulnerable to fraud and abuse.

2. **Have you considered studying the feasibility of requiring subscribers to the enhanced tribal support to show verification of tribal citizenship or enrollment?**

Response: I believe that enhanced Lifeline support is most effective when it is used to encourage deployment of broadband-capable networks in digitally redlined areas. In keeping with that goal, I believe eligibility for enhanced Lifeline for Tribal lands should turn not on Tribal citizenship or enrollment, but on whether a low-income consumer resides in rural Tribal lands—lands that historically have received less service and have offered consumers fewer competitive options. As we move forward with our reforms, I look forward to considering this suggestion as one alternative means of achieving what I believe is our common end: a Lifeline program that no longer tolerates waste, fraud, and abuse.

**Post-Hearing Questions for the Record
From Senator Claire McCaskill**

Eligibility Verification

The FCC's 2012 Lifeline Reform Order called for the creation of the National Lifeline Accountability Database (NLAD) to prevent duplicate subscribers. The NLAD is designed to reject any applicant who appears to be a duplicate of an existing subscriber or who shares an address with an existing subscriber.

Although Lifeline providers are required to query this database before enrolling new subscribers, one loophole – the manual override process – has significantly undermined the success of the NLAD.

1. Please describe the safeguards currently in place to prevent the improper use of manual override process.

Response: You are right to be concerned about the manual override process. The NLAD allows providers to use certain manual dispute resolution processes to enroll a subscriber even when the enrollment was initially rejected. Specifically, if the NLAD cannot verify an applicant's identity through the LexisNexis Identify Verification and Authentication system, current federal regulations allow a carrier to manually override the system. Current rules state that the carrier must review and retain documentation that demonstrates the subscriber's identity and notify the Universal Service Administrative Company (USAC) of the type of documentation it reviewed. But under current rules, USAC does not review that documentation before the override is effective.

I believe that we must ensure the enrollment processes designed to prevent eligible low-income consumers from being denied benefits are not being used fraudulently by unscrupulous providers. That's why last week, I proposed to my colleagues a Notice of Proposed Rulemaking that, among other issues, would seek comment on requiring USAC to directly review subscribers' documentation before a manual override can occur—adding a much-needed control to the current process.

An investigation you led as an FCC Commissioner found that between October 2014 and April 2016, Lifeline carriers enrolled 4.3 million subscribers using the manual override process. During the hearing, you stated that you would need to “change the rules” in order to prevent these providers from continuing to override the database.

1. Please identify any statute, regulation, or administrative policy, which currently restricts your ability to prevent providers from continuing to override NLAD determinations even if they are suspected of abusing the override process.

Response: Unlike other universal service programs, the Lifeline program does not yet have rules that allow the Commission or USAC to prohibit particular agents from abusing our processes. In

In addition to the proposal, described above, that would limit the value of the manual override process for unscrupulous agents, I proposed last week to my colleagues new rules that would require Lifeline agents to register with USAC before accessing the NLAD or National Verifier, would allow the Commission to take direct enforcement actions against agents that violate program rules (including prohibiting further participation in the program as a Lifeline agent), and would exclude commission-based sales agents entirely from the verification process.



November 1, 2017

Senator Ron Johnson, Chairman
United States Senate
Committee on Homeland Security
and Governmental Affairs
328 Hart Senate Office Building
Washington, DC 20510

Senator Claire McCaskill
United States Senate
Committee on Homeland Security
and Governmental Affairs
503 Hart Senate Office Building
Washington, DC 20510

Via Email to: Laura Kilbride, Chief Clerk (laura_kilbride@hsgac.senate.gov)

Dear Senator Johnson and Senator McCaskill:

Thank you for your recent letter requesting the Universal Service Administrative Company's (USAC) response to certain post-hearing questions for the record (QFRs). Specifically, these questions relate to the September 14, 2017 hearing held by the Committee on Homeland Security and Governmental Affairs (Committee), titled "FCC's Lifeline Program: A Case Study in Government Waste and Management."

It was my honor to testify before the Committee and to provide information on the Universal Service Fund's (USF) Lifeline program and the related audit report issued by the U. S. Government Accountability Office (GAO). USAC is dedicated to working with the Federal Communications Commission (FCC) as well as other federal, state, and Tribal partners to ensure access to communications and broadband services while protecting the USF from waste, fraud, and abuse. We welcome your questions and interest in the Lifeline program.

Below are USAC's responses to the QFRs. Per your instructions, we have repeated the questions in their entirety before providing our answers.

Eligibility Verification (Questions 1-4)

The FCC's 2016 Lifeline Modernization Order called for the creation of a National Lifeline Eligibility Verifier ("National Verifier"), which will centralize access to the multiple state databases currently used to check subscriber eligibility. GAO noted in its report that "on the basis of past experience, the feasibility of creating data-sharing agreements that would enable an automated means to confirm eligibility prior to disbursements is uncertain."

Senator Johnson and Senator McCaskill
November 1, 2017
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Question 1:

Please identify the states with which USAC has reached a data sharing agreement in connection with the National Verifier.¹ For each state identified, please describe:

- a. The type and source of data covered by the agreement (e.g. Medicaid enrollment data from state department of health);*

To date, USAC has entered into computer matching agreements for the National Verifier with the following states: Colorado, Mississippi, New Mexico and Utah. In addition, as discussed in response to Question 2 below, USAC has also entered into a computer matching agreement with the U.S. Department of Housing and Urban Development (HUD). USAC continues to work diligently with other state and federal agencies to obtain access to qualifying eligibility program databases.

The following is a list of the type of data (either the Supplemental Nutrition Assistance Program (SNAP) and/or Medicaid) shared by the above-named states and the name of the applicable state agency providing access:

- Colorado - SNAP and Medicaid data from the Colorado Office of Information Technology;
- Mississippi - SNAP data from the Mississippi Department of Human Services;
- New Mexico - SNAP and Medicaid data from the New Mexico Human Services Department; and
- Utah - SNAP and Medicaid data from the Utah Department of Workforce Services.

As set forth in the *2016 Lifeline Modernization Order*,² USAC is required to launch the National Verifier with at least five states in 2017. In 2018, USAC will add more states to the National Verifier for a total of 25 states and territories by the end of next year, and the remaining states and territories will be added in 2019. On August 31, 2017, USAC, in coordination with the FCC, announced that the four states listed above, along with Montana and Wyoming, will be included in the initial launch of the National Verifier. In Montana and Wyoming, Lifeline subscriber eligibility will be evaluated by USAC using available federal data sources, as well as through the

¹ The Privacy Act of 1974, as amended, provides for certain protections for individuals applying for and receiving federal benefits. The law governs the use of computer matching by federal agencies when records in a system of records are matched with other federal, state, or local government records. See 5 U.S.C. § 552(a). Herein, we use the term "computer matching agreements" to respond to those questions posed about data sharing agreements.

² See *Lifeline and Link Up Reform and Modernization et al.*, Third Report and Order, Further Report and Order, and Order on Reconsideration, 31 FCC Rcd 3962, 4021, para. 164 (2016) (*2016 Lifeline Modernization Order*).

Senator Johnson and Senator McCaskill
November 1, 2017
Page 3

manual submission of eligibility documentation, such as a SNAP or Medicaid card, which meets the validation standards developed in coordination with the FCC.

- b. Any databases maintained by that state related to participation in any of Lifeline's qualifying eligibility programs, but which are not covered by the data sharing agreement; and*

USAC has made inquiries with the state public utility commissions, health and human service agencies and similar state agencies regarding available databases in the above-named states and identified the following databases that provide information related to participation in any of Lifeline's qualifying eligibility programs, but which are not covered by our computer matching agreements:

- In Colorado and New Mexico, there appear to be no additional state databases not covered by our computer matching agreements with those states.
- In Mississippi, the state's Medicaid data is maintained by the Mississippi Division of Medicaid, which is not included in our computer matching agreement with that state. USAC has entered into a computer matching agreement with the Mississippi Department of Human Services. Thus, USAC is working with the Mississippi Division of Medicaid to evaluate the opportunity to access its Medicaid eligibility database.
- In Utah, USAC has recently learned that the Utah Department of Workforce Services may also have a database containing eligibility data for Supplemental Security Income (SSI) recipients and is working with the state to potentially add access to the SSI data for the National Verifier.

In addition, USAC is working to engage with the various Tribal nations and representatives in these four states and throughout the country to determine if there are accessible databases with eligibility information for Tribal-specific federal assistance programs.

- c. Whether USAC and the National Verifier will have an automated connection to each data source covered by the agreement.*

USAC has developed an automated connection, using an Application Programming Interface (API), with the above-referenced state databases in Colorado, Mississippi, New Mexico, and Utah. As discussed above, Lifeline subscriber eligibility for applicants in Montana and Wyoming will be validated through any available federal data sources and the submission of eligibility documentation to USAC.

Senator Johnson and Senator McCaskill
November 1, 2017
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Question 2:

Please identify any federal agencies with which USAC has reached a data sharing agreement in connection with the National Verifier.

In addition to the four computer matching agreements with the states described in response to Question 1, USAC has also entered into a computer matching agreement with HUD for access to federal public housing assistance data. USAC continues to work with other federal agencies, such as the U.S. Department of Veterans Affairs (Veterans Benefits Administration) and the Centers for Medicare & Medicaid Services, as well as with other states and Tribal nations, to add additional qualifying eligibility data sources to the National Verifier.

Question 3:

Please describe the steps USAC is taking to ensure that the sensitive personal data used by the National Verifier will be secure.

USAC takes the stewardship of Lifeline subscribers' personally identifiable information (PII) data seriously and has made the protection of this data a top priority. The computer matching agreements that USAC has entered into with federal and state agencies require that all data used by the National Verifier is subject to and must comply with the requirements set forth by the Federal Privacy Act of 1974 (Privacy Act), the Federal Information Security Management Act (FISMA), and related Office of Management and Budget (OMB) circulars and memoranda such as Circular A-130, "Managing Federal Information as a Strategic Resource," and applicable National Institute of Standards and Technology (NIST) directives.

System of Records. The National Verifier, as a system of records, is subject to the Privacy Act requirements. The Privacy Act embraces the Fair Information Practice Principles that governs the collection, maintenance, use, and dissemination of information about individuals that is maintained in systems of records by federal agencies. In compliance with the Privacy Act, descriptions of the categories of individuals covered by the system, categories of the records in the system, and routine uses for the PII that is collected and retained within the National Verifier are publicly available in the National Verifier's System of Records Notice (SORN). On August 15, 2017, the FCC published the SORN for the National Verifier in the Federal Register.

Subscriber Consent and Access. All Lifeline subscribers provide affirmative consent to the collection, use, sharing and retention of their PII within the National Verifier. Prior to the collection of PII in the National Verifier, Lifeline subscribers are provided a Privacy Act notice that details detailing the basis for the collection and the routine uses of the information. Lifeline subscribers may also contact USAC or the FCC to access, correct or amend any PII within the National Verifier.

Senator Johnson and Senator McCaskill
November 1, 2017
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Safeguards. USAC has administrative, technical, and physical safeguards in place to meet the FISMA requirements and adhere to NIST guidance. Consistent with these safeguards, USAC routinely reviews information systems, establishes risk levels, implements security controls, develops risk assessments, obtains certification and accreditation and maintains continuous monitoring of its systems. USAC designed the National Verifier to contain the applicable information security and privacy controls in accordance with NIST Special Publication (SP) 800-53, Revision 4. The National Verifier includes a comprehensive and dynamic set of information security protocols and features to meet the federal privacy standards. Access to this data is restricted to authorized USAC and contractor employees on a “need to know” basis and can only be accessed for authorized uses. All data transmitted and stored within the National Verifier is encrypted at standards that meet the requirements of Federal Information Processing Standard (FIPS) Publication 140-2. No sensitive PII is displayed or available in any reports generated from the National Verifier. All transactions within the National Verifier are monitored and logged. Currently, USAC is in the process of accrediting the National Verifier in accordance with NIST SP 800-37, Revision 1.

PII Training. Annually, all USAC employees and contractors who will collect, use, share or retain PII will receive role-based privacy training and must certify to completing this training. This training is in addition to the information security and privacy awareness training that all USAC staff and contractors must complete and certify to each year.

Contractor Applicability. As required by the Privacy Act and FISMA, USAC’s contractors for the National Verifier are contractually bound to the same information security and privacy requirements as USAC employees.

Computer Matching Agreements. The computer matching agreements between USAC and the federal and state agencies require that all transmitted data must meet the following FIPS Publication 140-2 requirements: (1) all automated matching records must be maintained in a secured computer environment that includes the use of authorized access codes (passwords or public key infrastructure (PKI)) to restrict access, (2) encryption using algorithms, (3) credentialing using User ID and password, and (4) individual tracking to safeguard against the unauthorized access and use of the system. The computer matching agreements require the parties to protect data in accordance with the Privacy Act, and FISMA security and privacy requirements.

Question 4:

Please describe any steps USAC is taking to assess the reliability or accuracy of the federal and state data sources that will interface with the National Verifier.

USAC does not have the authority to test or assess the accuracy of the data contained in the state or federal databases; however, as part of each computer matching agreement, the source agency attests to the accuracy of the data they are providing to USAC. In addition, USAC has

Senator Johnson and Senator McCaskill
November 1, 2017
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developed processes to safeguard the rights of eligible Lifeline applicants to participate in the federal Lifeline program while also protecting the USF from waste, fraud, and abuse.

First, USAC has several processes in place to validate a Lifeline applicant's identity and address to ensure the applicants meet FCC rules regarding eligibility. When applying for Lifeline using the National Verifier portal, users will be required to submit their first and last name, address, date of birth, and the last four digits of their Social Security Number (SSN). USAC will then conduct various verification tests on these four distinct data points, including checks with several databases. Specifically, the applicant's name is checked through a third-party identity verification (TPIV), a service that verifies the existence of a person who corresponds to the personal information submitted by the applicant by using public and private records. Second, the Address Management System (AMS) is checked to verify the existence of the applicant's address. Finally, the National Lifeline Accountability Database (NLAD) verifies the applicant's information to ensure that the applicant is not already receiving a Lifeline benefit and to prevent duplicates in the program. These validations, combined with eligibility checks in other state or federal databases and the manual review of eligibility documents when necessary, help to ensure that the eligibility determinations made by the National Verifier are highly reliable.

In addition, the Privacy Act requires USAC to provide the opportunity for an applicant to dispute a computer to computer match result. In cases where an applicant's information is not matched in the applicable databases, the applicant may provide copies of eligibility documentation, such as a SNAP or Medicaid card, which will be manually reviewed by USAC based on criteria established in coordination with the FCC. In the event the applicant is denied, but he or she believes the eligibility determination is incorrect, the applicant may dispute the results and USAC will undertake a review of the information provided by the applicant.

Eligibility Verification (Questions 5-6)

The FCC's 2012 Lifeline Reform Order codified the one-per-household rule, which prohibits a single household from receiving multiple Lifeline subscriptions. Currently, Lifeline providers must query the National Lifeline Accountability Database (NLAD) before enrolling a new subscriber. Although NLAD will reject an applicant with the same address as another subscriber, carriers can manually override this determination. An investigation conducted by then-Commissioner Pai found that between October 2014 and April 2016, carriers enrolled 4.3 million subscribers using the "independent economic household (IEH) override."

During the hearing you stated that "there is no override function being contemplated" for the National Verifier.

Question 5:

Please describe the safeguards currently in place to prevent carriers from improperly using the IEH override process.

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Under the current FCC rules, prior to enrollment of a Lifeline subscriber in the NLAD, eligible telecommunications carriers (ETCs) must collect a one-per-household (OPH) worksheet for subscribers who are associated with an address where another subscriber is receiving a Lifeline benefit. Subscribers are required to certify that they are an independent economic household (IEH).³ In addition, when ETCs enroll new Lifeline subscribers into NLAD, they must affirmatively indicate they have the OPH worksheet on file in order to complete the enrollment. ETCs provide this indication through the use of a “flag” or checkbox in the NLAD system, which has previously been referred to as an “IEH override.” As a commissioner, Chairman Pai raised concerns about this process in his letters to USAC in the second and third quarters of 2016. USAC has monitored and reviewed the use of the IEH flag since that time, while maintaining the availability of the IEH flag as required by the FCC’s rules.

In May 2017, the GAO issued a report with the results of its forensic audit of the Lifeline program and NLAD system. In response to that report, on July 11, 2017, Chairman Pai sent an inquiry to USAC that, among other things, raised questions about “oversubscribed addresses” in NLAD. These oversubscribed addresses arise when ETCs use the IEH flag to indicate that more than one subscriber resides at a physical address because the individuals are independent economic households under the FCC’s rules. USAC believes that the IEH flag is most frequently used for addresses that house multiple people, such as homeless shelters and nursing homes. We note, however, that FCC investigations have shown that sales agents have confessed to “frequently assign[ing] a homeless shelter as the address for [] consumers because it would be difficult, if not impossible, to disprove.”⁴

In response to Chairman Pai’s July 11 letter and the recommendations contained therein, USAC developed the *Lifeline Safeguards Implementation Plan*, which sets out a project plan to review the addresses in NLAD that have a significant number of subscribers – oversubscribed addresses. As part of that plan, beginning in September 2017, the Lifeline program team identified ETCs providing services to addresses with 500 or more subscribers, of which there are 10 oversubscribed addresses that are serviced by 19 ETCs.⁵ In September, USAC issued letters to these ETCs and directed them to validate the oversubscribed addresses and provide a sample of the OPH worksheets for subscribers at those addresses. The responses from the targeted ETCs are due in November 2017. In addition, as directed by Chairman Pai, USAC began the same process with a sample of addresses with 25 or more subscribers. In early October, USAC issued the first round of letters with responses due by December 2017. USAC will continue to sample and send letters on a quarterly basis to ETCs with subscribers of 25 or more people at the same address.

³ See 47 C.F.R. § 54.410(d)(1)(ii), (iii).

⁴ *Total Call Mobile Inc.*, File No. EB-IHD-14-00017650, NAL/Acct. No.: 201632080004, Notice of Apparent Liability for Forfeiture and Order, 31 FCC Red 4191, 4204, para. 45 (2016).

⁵ USAC confirmed that the 10 oversubscribed addresses were homeless shelters or an equivalent dwelling.

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USAC will take further action for oversubscribed addresses depending on the results provided by the ETCs in response to the inquiry letters referenced above. Such further actions will include: (1) referring non-compliant ETCs to the FCC's Office of Inspector General (OIG) and Enforcement Bureau (EB); (2) requiring the non-compliant ETCs to de-enroll oversubscribed individuals in accordance with the FCC's rules;⁶ and (3) initiating recovery actions against non-compliant ETCs. USAC will work with the FCC to determine if additional sampling or auditing of these ETCs is necessary.

In addition to the processes described above, during the course of an audit, USAC's Internal Audit Division (IAD) utilizes procedures that review subscriber listings to identify instances of two or more subscribers with the same address, which may result in an audit finding and possible referral to the FCC.

Question 6:

Please describe any changes to the IEH override process that will occur upon implementation of the National Verifier.

As discussed above in response to Question 5, under the current process, ETCs are required to obtain and retain OPH worksheets from subscribers that demonstrate compliance with the one-per-household rule. With the implementation of the National Verifier, the applicant will now provide the OPH worksheet directly to USAC where it will be reviewed by our staff. The ETC will not be able to enroll a subscriber in NLAD who shares an address with an existing subscriber unless a verified OPH worksheet is on file with USAC. The transition of this review from ETCs to USAC is consistent with the National Verifier's principal goal of having eligibility verification conducted by the neutral administrator. In addition, the National Verifier will identify when a sales agent is making repeated attempts to enter incorrect or questionable data, which will enable USAC to closely monitor attempted enrollments for unusual patterns and act to prevent possible fraud.

Enforcement (Questions 7-8)

In response to GAO's findings, Chairman Pai sent a letter directing USAC to take "immediate action" to mitigate the risk of waste, fraud, and abuse in the Lifeline program. Chairman Pai's July 11, 2017, letter directed USAC to take several specific steps to address the weaknesses identified in GAO's May 2017 report.

Question 7:

The July 11, 2017, directives included requiring Eligible Telecommunications Providers (ETCs) to de-enroll phantom, duplicate, and deceased subscribers. Has USAC directed any ETC to de-

⁶ See 47 C.F.R. § 54.405(e)(1).

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enroll subscribers as a result Chairman Pai's July 2017 directive? If so, please identify the following:

As discussed below in detail, USAC is currently engaged in a review of potential phantom, duplicate, and deceased subscribers in the NLAD system and has not yet directed any ETCs to de-enroll any individuals. The GAO has provided the FCC with the results of its 21 covert test enrollments using fictitious eligibility documentation, and communicated to the FCC that it is working to provide the source data for ineligible, duplicate, and/or deceased subscribers identified in its investigation to the FCC's EB and OIG. USAC will then review and process the source data to ensure ineligible subscribers are not still enrolled in the program. After review, USAC will recover any improper payments and refer appropriate cases to the FCC for enforcement action.

Phantom Subscribers. In September 2017, in order to prevent phantom subscribers, USAC began rejecting any Lifeline support reimbursement requests where the subscriber count on the FCC Form 497 exceeded the NLAD subscriber count. These subscribers are referred to as phantom subscribers. Starting in January 2018, all Lifeline program reimbursement claims will be calculated based on the subscribers enrolled in the NLAD. This change will eliminate the risk of phantom subscribers by directly tying reimbursement with NLAD subscriber enrollment. USAC, in coordination with the FCC, is also undertaking review of phantom subscribers that may have been claimed by ETCs in the past. USAC will be conducting future outreach to ETCs regarding this matter.

Deceased Subscribers. Regarding the issue of deceased subscribers, USAC is working to add functionality to the NLAD system that will validate subscribers against the Social Security Master Death Index. Later this month, USAC will implement this functionality in NLAD. After USAC accesses the index, we will also validate existing subscribers against that data and take steps to de-enroll any deceased subscriber and recover any improperly disbursed support.

In its Lifeline audit report, the GAO identified 6,378 individuals that may be deceased but were listed in NLAD at the time of the audit. USAC has not yet received data from the GAO regarding the deceased subscribers identified in the GAO's Lifeline audit. Once USAC receives data from the GAO, we will review and determine if any of the deceased subscribers identified by the GAO remain in the NLAD.

Duplicate Subscribers. Upon receipt of Chairman Pai's letter, USAC conducted a detailed data analysis of the current NLAD data to detect any duplicate subscribers and none were identified. In its audit report, the GAO identified 5,510 potential duplicates in the NLAD data at the time of the audit. USAC has not yet received any data from the GAO regarding the duplicate subscribers identified in the audit. Once USAC receives data from the GAO, we will review and determine if any of the duplicate subscribers identified by the GAO remain in the NLAD.

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- a. The number of ETCs that have been instructed to de-enroll subscribers, and the total number of subscribers to be de-enrolled;*

As detailed above, when USAC identifies any phantom, deceased or duplicate subscribers, we will instruct the ETCs to de-enroll those subscribers in compliance with the FCC's rules.

- b. Any steps USAC has taken to verify that these subscribers have been de-enrolled.*

USAC has not yet instructed any ETCs to de-enroll subscribers as part of Chairman Pai's directives. Once the *Safeguards Implementation Plan* review process for these categories has concluded, if USAC identifies any phantom, duplicate or deceased subscribers, we will ensure they are de-enrolled. USAC is developing a verification process to ensure that any subscribers identified as non-compliant with the rules through an audit or other review are properly de-enrolled and improper payments are recovered.

- c. Has USAC recaptured any improper payments in connection with any de-enrollments? If so, what is the total amount that has been recaptured?*

As detailed above, when USAC identifies any phantom, deceased or duplicate subscribers, we will instruct the ETCs to de-enroll those subscribers in compliance with the FCC's rules and will work with the FCC to recover any improper payments related to those subscribers.

Question 8:

As a result of the July 11, 2017, directives, has USAC referred any ETC to the FCC's Enforcement Bureau or Office of Inspector General? If so, please describe the number and nature of these referrals.

USAC has developed strong data analytics, program integrity projects and a risk-based audit program to detect waste, fraud, and abuse in the Lifeline program. These efforts have resulted in several referrals to the FCC OIG and EB. In addition to the processes already in place, we are implementing the safeguards directed by Chairman Pai and working with GAO to obtain and review the underlying data used in the GAO's audit report. As additional data is received and reviewed, USAC is committed to working closely with the FCC's Enforcement Bureau and Office of Inspector General to refer any rule violations. USAC notes that since July 2017, we have referred two ETCs to the FCC for possible violations of the Lifeline rules, but those referrals were unrelated to Chairman Pai's July 11 letter.

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Senators, I appreciate the opportunity to respond to these QFRs. I look forward to continuing to work with members of Congress, the FCC, and other stakeholders to continue our collective efforts to improve the integrity of the Lifeline program and reduce waste, fraud, and abuse.

Sincerely,

A handwritten signature in black ink, appearing to read "Vickie S. Robinson", with a long horizontal flourish extending to the right.

Vickie S. Robinson
Acting Chief Executive Officer and General Counsel
Universal Service Administrative Company